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TABLE OF CONTENTS

Page

TRENDS IN RETAIL TRADE:
- CURRENT VIEW..... 1
- RETAIL SALES BY OUTLET TYPE..... 2
- STORE PURCHASES & GROSS MARGINS..... 5
- RETAIL SALES BY REGION..... 7
- RETAIL SALES BY METROPOLITAN AREA..... 8
- MULTI-UNIT RETAILERS..... 9
- RETAIL STORES & EMPLOYMENT.....10

EVOLUTION OF RETAILING ORGANIZATIONS:
- MULTI-DIVISION RETAIL OPERATORS.....12
- MASS MERCHANDISERS.....15
- DEPARTMENT STORES.....19
- SPECIALTY STORES.....25
- DISCOUNT STORES.....28
- OFF-PRICE RETAILERS.....28
- FACTORY OUTLETS.....31
- SUPERMARKETS/HYPERMARKETS.....31
- CATALOG SELLING.....32
- CATALOG SHOWROOMS.....33
- WAREHOUSE CLUBS.....34

DEVELOPING MERCHANDISING TECHNIQUES:
- FRANCHISING.....36
- NATIONAL BRANDS.....37
- LICENSED PRODUCTS.....38
  - MERCHANDISING.....39
  - CHILDREN'S PRODUCTS.....39
  - DESIGNER/PERSONALITY NAMES.....40
- PRIVATE LABEL PROGRAMS.....43
- SOURCING.....44
- PRICING.....45
- STORE SERVICES.....46
- SELF-SERVICE/SELF-SELECTION.....46
- ELECTRONIC SHOPPING.....47
- VIDEO DISPLAYS (IN-STORE).....48
- RETAILING IN 2004.....48

SCHEDULE OF ADDITIONAL FACT FILES.....50

TRENDS IN RETAIL TRADE

CURRENT VIEW

Recovering from cutbacks in spending in the recession years of 1981 and 1982, retail sales in outlets of all types went over the trillion dollar mark in 1983, reaching $1,174 billion. The sales level represented a gain of 9.2% compared with 1982 in current dollar terms, and a 6.2% rise after adjustment for price increases. This compares with a current dollar gain of only 3.0% in 1982 over 1981.

Sales in durable goods stores were strongest, registering a gain of 17.6% in 1983 compared with 1982--the strongest gain since 1976. This was a direct result of the improved economy, which spurred consumers to go out and buy high-ticket items--appliances, cars, furniture--purchases which had to be postponed in the recession period. Sales in nondurable goods stores in 1983, on the other hand, gained only 5.6%.

The buoyant mood of consumers continued through most of 1984, then sales gains slowed down. In the first eight months, on a seasonally adjusted basis, total retail sales were up 11.6% compared with the same 1983 period, but this dwindled to a gain of 10.8% in the 10 months through October, according to the Department of Commerce. Advance data for the year 1984 indicates a rise of somewhat over 10% in total retail sales compared with 1983, on a current dollar basis, without adjustment for price increases. Changes in profitability, however, are another matter in view of the sharp price-cuts initiated, particularly at the Christmas selling season.

Durable goods retailers continued to do best in 1984. For the first 10 months of the year, sales of the durable goods store group were up 18.7% on a seasonally adjusted basis if automotive sales are included. Excluding these, the gain was 8.4%. Nondurable goods stores managed a 7.0% sales gain compared with the same 1983 period. However, helped considerably by a sharp rise in spending in women's and children's wear, department store sales in the 10-month period were up 11.3%; women's wear store sales, 15.5%.

Advance data for November 1984 indicated a rise of 8.3% compared with the same 1983 month in total retail sales (seasonally adjusted). Durable goods store sales were up 12.9%, nondurable goods stores, up 5.9%. Department store volume was reported to be up 9.6% for the month compared with November 1983; apparel and accessory store sales gained 7.3%.

At the close of the year, inventories of some merchandise were at uncomfortably high levels, and most retail trade was highly promotional--continuing into the early months of 1985 as retailers tried to clear the decks for Spring lines.

Viewing the outlook for the general merchandise sector of retail trade at a meeting of security analysts late in 1984, the chairman of Federated Department Stores, Inc., Howard Goldfeder said growth would probably slow modestly, particularly in the first half of 1985. Sales for the year were expected to rise about 8% on top of a 9% increase in 1984. According to this source, the retail climate, particularly for retailers whose strategies are aimed at upscale and middle income customers, will be stronger in 1985 than it has been in recent years because of demographic and lifestyle changes that are creating a strong demand for consumer goods, particularly apparel and home furnishings.

TRENDS IN RETAIL TRADE

CURRENT VIEW

The overall outlook for retail trade in 1985, according to industry analysts, indicates a recession-free, low-inflation business climate in 1985. An inflation rate (Consumer Price Index) at about 5% is expected. (For the 12-month period ended November 1984, the CPI increased 4.0%). Many analysts look for a gain of about 9% in current dollar sales in 1985, but profit margins are expected to be lower than in 1984 due to an expected highly competitive arena which will force retailers to continue to promote and to price-cut.

Government measures could have a major impact on retail sales in 1985 and later. Currently, tax reforms and actions to restrain interest rates and curb imports are all being considered by the Reagan administration. Depending on what actions are taken and the effectiveness of actions, the impact on retail sales could be tremendous.

RETAIL SALES BY OUTLET TYPE

Estimated Sales of Retail Stores by Major Classification
(Millions of Current Dollars)

	1983	1982	% Change 1983/1982
Retail trade, total	$1,174,033	$1,074,837	+ 9.2%
Durable goods stores, total	381,538	324,489	+ 17.6
Building materials, hardware/ garden supply, mobile home dealers	58,871	51,301	+ 16.7
Automotive dealers	219,876	182,607	+ 20.4
Furniture, home furnishings, equipment stores	53,981	46,106	+ 17.1
Jewelry stores	8,990	8,240	+ 9.1
Nondurable goods stores, total	792,495	750,348	+ 5.6
General merchandise group stores	143,491	132,581	+ 8.2
Department stores*	117,323	107,863	+ 8.8
Other general mdse. stores	17,046	15,900	+ 7.2
Variety stores	9,122	8,818	+ 3.4
Food stores (incl. supermarkets)	258,964	249,257	+ 3.9
Gasoline service stations	105,374	103,547	+ 1.8
Apparel & accessory stores	55,915	51,481	+ 8.6
Eating & drinking places	114,837	104,715	+ 9.7
Drug/proprietary stores	39,845	35,967	+ 10.8
Liquor stores	20,422	19,394	+ 5.3
Nonstore retailers**	24,091	23,255	+ 3.6
Mail-order houses (department store merchandise)	4,224	4,192	+ 0.8
GAF, total***	291,637	265,894	+ 9.7

(continued)

TRENDS IN RETAIL TRADE

RETAIL SALES BY OUTLET TYPE

(footnotes from previous table)

* Includes discount department stores as well as traditional department stores. Also includes stores operated by catalog chains, such as Sears Roebuck or others which meet the standard definition of a department store (Standard Industrial Classification).
**Includes establishments primarily selling merchandise through coin-operated vending machines, by house-to-house canvass, and from mail-order.
***GAF represents stores which specialize in department store types of merchandise --general merchandise, apparel and home furnishings stores.

Note: Kind of business classifications used in the above table are not interchangeable with commodity classifications. Most businesses sell several kinds of commodities. Major store group classifications include outlet types not separately listed.

Source: U.S. Department of Commerce, Current Business Reports (BR-83-13) 1983 Retail Trade

Retail Sales Total & Per Capita Sales, 1974-1983
(In Current Dollars)

Year	Retail Sales		Durable Goods Stores		Nondurable Goods Stores	
	Total (millions of dollars)	Per Capita Sales (dollars)	Total (millions of dollars)	Per Capita Sales (dollars)	Total (millions of dollars)	Per Capita Sales (dollars)
1974	540,988	2,556(r)	169,417	801	371,571	1,756
1975	588,146	2,751	182,966	856	405,180	1,895
1976	657,375	3,045	217,805	1,009	439,570	2,036
1977	725,220	3,325	248,692	1,140	476,528	2,185
1978	806,898(r)	3,660(r)	278,528(r)	1,263(r)	528,370(r)	2,397(r)
1979	899,379(r)	4,034(r)	302,143(r)	1,355(r)	597,236(r)	2,679(r)
1980	960,767(r)	4,258(r)	292,383(r)	1,296(r)	668,384(r)	2,962(r)
1981	1,043,524(r)	4,579(r)	315,675	1,385(r)	727,849(r)	3,194(r)
1982	1,074,837(r)	4,671(r)	324,489	1,410(r)	750,348(r)	3,261(r)
1983	1,174,033	5,054	381,538	1,643	792,495	3,412

(r) revised

Source: U.S. Department of Commerce, Current Business Reports (BR-83-13) 1983 Retail Trade

Growth rates over the years have varied considerably by outlet type, reflecting changing economic and market conditions. Performances in 1982 were patterned by the recession, no store-type did very well, but durable goods retailers--selling high-ticket items--were particularly hard hit. A strong revival was reflected in 1983 for most store types; others, such as gasoline service stations were affected by a drop in prices.

TRENDS IN RETAIL TRADE

RETAIL SALES BY OUTLET TYPE

Change in Retail Sales by Outlet Type, 1979-1983, Jan-Sept. 1984/83
(Based on Current Dollars)

	Jan.-Sept. 1984/83	Annual Total 1983/82	1982/81	1981/80	1980/79
Retail trade, total	+11.4%	+ 9.2%	+ 3.0%	+ 8.6%	+ 6.8%
Food stores	+ 6.3	+ 3.9	+ 4.6	+ 7.6	+11.6
Automotive dealers	+21.8	+20.4	+ 4.7	+18.3	- 9.3
General merchandise group stores	+11.0	+ 8.2	+ 3.4	+10.8	+ 4.9
Department stores*	+11.7	+ 8.8	+ 3.8	+11.3	+ 4.7
Variety stores	+ 6.4	+ 3.4	+ 1.3	+ 6.4	+ 1.5
Eating & drinking places	+ 8.8	+ 9.7	+ 6.6	+ 9.0	+ 9.8
Gasoline service stations	+ 2.3	+ 1.8	- 3.8	+11.0	+29.2
Building materials, hardware, garden supply, & mobile home dealers	+16.1	+16.7	- 2.0	+ 3.1	- 0.3
Apparel & accessory stores	+11.2	+ 8.6	+ 2.2	+ 8.8	+ 6.4
Men's & boys' wear stores	+ 5.7	+ 3.5	- 1.3	+ 4.3	- 0.1
Women's wear stores, incl. furriers	+16.6	+11.4	+ 4.8	+ 8.0	+ 2.9
Family clothing stores	+13.2	+11.8	+ 7.5	+ 9.0	+11.5
Shoe stores	+ 6.1	+ 7.1	- 4.1	+11.7	+ 8.1
Furniture, home furnishings & equipment stores	+14.8	+17.1	- 0.7	+ 5.7	+ 4.1
Drug & proprietary stores	+ 8.9	+10.8	+ 7.1	+ 9.7	+ 8.7
Nonstore retailers**	+ 7.2	+ 3.6	- 0.7	+ 2.3	+10.4
Mail-order houses (Dept. store mdse.)	+ 9.9	+ 0.8	- 3.5	- 3.9	+ 2.0

See footnotes on preceding table.

Source: U.S. Department of Commerce,
Current Business Report:
Revised Monthly Retail Sales & Inventories, BR-13-83S;
Monthly Retail Trade, September 1984, BR-84-09

The pattern in contribution to total store sales made by store type shifts somewhat in response to market conditions. When gasoline prices skyrocketed, service stations' share of total sales went up, but has fallen off in response to price cuts. Food stores historically control the biggest piece of the retail pie. People have to eat. But this store group also includes supermarkets which have vastly expanded their general merchandise stocks. Department stores are fighting to hold market shares in all areas, as will be discussed in later sections of this report.

TRENDS IN RETAIL TRADE

RETAIL SALES BY OUTLET TYPE

Distribution of Retail Sales by Store Type, 1979-1983, Jan.-Sept. 1984

	Jan.-Sept. 1984	Annual Total 1983	1982	1981	1980	1979
Total retail sales (billions $)	$939.5	$1,174.0	$1,074.8	$1,043.5	$960.8	$899.4
Percent of total:	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Food stores	21.7	22.1	23.2	22.8	23.1	22.1
Automotive dealers	21.3	18.7	17.0	16.7	16.5	19.4
General merchandise group stores	10.9	12.2	12.3	12.3	12.0	12.3
Department stores*	9.0	9.9	10.0	10.0	9.7	9.9
Variety stores	0.7	0.8	0.8	0.8	0.9	0.9
Eating & drinking places	10.0	9.8	9.7	9.4	9.4	9.1
Gasoline service stations	8.4	9.0	9.6	10.3	10.1	8.4
Building materials, hardware, garden supply, & mobile home dealers	5.5	5.1	4.8	5.0	5.3	5.7
Apparel & accessory stores	4.3	4.8	4.8	4.8	4.8	4.8
Men's & boys' wear stores	0.6	0.7	0.8	0.8	0.8	0.9
Women's wear stores, incl. furriers	1.8	1.8	1.8	1.8	1.8	1.9
Family clothing stores	0.9	1.0	1.1	1.0	1.0	1.0
Shoe stores	0.7	0.8	0.8	0.9	0.9	0.9
Furniture, home furnishings & equipment stores	4.4	4.6	4.3	4.4	4.6	4.7
Drug & proprietary stores	3.2	3.4	3.4	3.2	3.2	3.1
Nonstore retailers**	1.9	2.0	2.2	2.2	2.4	2.3
Mail-order houses (dept. store mdse.)	0.3	0.4	0.4	0.4	0.5	0.5

See footnotes on preceding tables.

Source: U.S. Department of Commerce,
Current Business Reports:
Revised Monthly Retail Sales & Inventories, BR-15-83S;
Monthly Retail Trade, 1984, BR-84-09

STORE PURCHASES & GROSS MARGINS

Purchases made by retail stores of all types in 1983 were estimated at $818 billion. This represents the total cost of merchandise purchased for resale during the year, including shipping costs, etc. Gross margins for all retail operations amounted to 31.4% of sales in 1983, but varied considerably by outlet type. (Gross margins represent total sales less cost of goods sold.)

For the durable goods category, the gross margin was 27.8% of sales. The furniture group posted the highest gross margin to sales ratio, 39.6%, while the automotive group showed the lowest, 20.9%. The gross margin for the nondurable goods category was 33.1%, but for department stores it registered 38.5%; for apparel and accessory stores, 42.2%.

STORE PURCHASES & GROSS MARGINS

Estimated Sales, Purchases, Gross Margin & Gross Margin as a Percent of Sales, by Kind of Business, 1983
(Millions of Dollars)

Kind of Business	Total Sales	Purchases	Gross Margin	Gross Margin as a % of Sales
Retail trade, total	$1,174.0	$ 818.0	$368.5	31.4%
Total (excluding automotive group)	954.2	639.8	322.6	33.8
Durable goods stores, total	381.5	283.0	106.0	27.8
Building materials, hardware, garden supply & mobile home dealers	59.9	42.9	18.4	30.8
Building materials, supply, hardware stores	52.3	37.8	15.7	30.0
Building materials & supply stores	42.8	31.3	12.5	29.2
Hardware stores	9.5	6.4	3.2	33.7
Automotive dealers/automotive supply stores	219.9	178.2	45.9	20.9
Furniture, home furnishings, equipment stores	54.0	34.0	21.4	39.6
Furniture & home furnishings stores	30.8	18.4	13.1	42.6
Furniture stores	19.9	12.0	8.3	41.8
Household appliance, radio & TV stores	19.0	12.8	6.7	35.5
Household appliance stores	7.8	5.7	2.3	29.0
Jewelry stores	9.0	4.8	4.5	50.0
Nondurable goods stores, total	792.5	535.0	262.4	33.1
General merchandise group stores	143.5	92.1	53.6	37.4
Department stores, miscellaneous general merchandise stores	134.4	86.2	50.4	37.5
Department stores	117.3	74.2	45.2	38.5
Variety stores	9.1	5.9	3.2	35.2
Food stores	259.0	198.0	61.6	23.8
Grocery stores	242.4	188.2	54.8	22.6
Gasoline service stations	105.4	89.1	16.2	15.4
Apparel & accessory stores	55.9	33.4	23.6	42.2
Men's, boy's clothing, furnishings stores	8.4	4.8	3.7	44.0
Women's ready-to-wear stores	19.8	11.9	8.5	42.8
Family clothing stores	12.8	8.2	5.1	39.5
Shoe stores	9.5	5.3	4.3	45.2
Eating & drinking places	114.8	45.5	69.4	60.5
Drug stores & proprietary stores	39.8	27.9	12.5	31.3
Liquor stores	20.4	15.5	5.0	24.7
GAF, total	291,637	182,752	114,293	39.2

*GAF represents stores which specialize in department store types of merchandise.

Source: U.S. Department of Commerce, Current Business Reports (BR-83-13) 1983 Retail Trade.

TRENDS IN RETAIL TRADE

RETAIL SALES BY REGION

Between 1982 and 1983, only two regions of the country registered growth in retail sales higher than the national average -- New England (+12.7%) and South Atlantic (+13.3%). Three-quarters into 1984, four regions of the country are showing growth above the national average: the South Atlantic, New England, West North Central and Middle Atlantic regions.

Between 1982 and 1983, the slowest growth in retail sales was in the West South Central region. However, between 1979 and 1981, this region showed a growth rate well above the national average. In the period January through September 1984, the slowest growing region was the East South Central, which had shown double digit gains in the previous year.

Percent Change in Retail Sales by Region 1979-1983, January-September, 1984/83

	January-September	Annual Total			
	1984/1983	1983/1982	1982/1981	1981/1980	1980/1979
Total retail sales	+ 11.8%	+ 9.3%	+ 3.0%	+ 8.6%	+ 6.8%
New England	+ 12.8	+ 12.7	+ 3.7	+ 11.4	+ 7.4
Middle Atlantic	+ 11.9	+ 8.7	+ 4.7	+ 5.7	+ 8.4
East North Central	+ 10.2	+ 6.8	+ 1.3	+ 5.9	+ 2.1
West North Central	+ 12.6	+ 8.3	+ 4.7	+ 8.6	+ 2.4
South Atlantic	+ 14.4	+ 13.3	+ 2.9	+ 10.1	+ 9.6
East South Central	+ 8.8	+ 10.2	+ 5.1	+ 5.4	+ 3.6
West South Central	+ 9.5	+ 6.3	+ 3.3	+ 13.7	+ 11.7
Mountain	+ 11.3	+ 7.6	+ 1.8	+ 11.2	+ 10.0
Pacific	+ 10.0	+ 9.7	+ 1.7	+ 8.7	+ 7.0

Source: U.S. Department of Commerce,
Current Business Reports,
Revised Monthly Retail Sales & Inventories
BR-13-83S;
Monthly Retail Trade, September 1984
BR-84-09

States included within each geographical region are as follows:

New England (Me., N.H. Vt., Mass., R.I., Conn.)
Middle Atlantic (N.Y., N.J., Pa.)
East North Central (Oh., Ind., Ill., Mich., Wis.)
West North Central (Minn., Ia., Mo., N.D., S.D., Neb., Kans.)
South Atlantic (Del., Md., D.C., Va., W.Va., N.C., S.C., Ga., Fla.)
East South Central (Ky., Tenn., Ala., Miss.)
West South Central (Ark., La., Okla., Tex.)
Mountain (Mont., Id., Wyo., Colo., N.M., Ariz., Utah, Nev.)
Pacific (Wash., Ore., Cal., Alaska, Haw.)

TRENDS IN RETAIL TRADE

RETAIL SALES BY REGION

The South and West regions of the country, which together accounted for 90% of national population growth during the 1970-1980 decade, have continued to expand, accounting for 92% of population growth from April 1, 1980 to July 1, 1982, according to the Census Bureau. The proportion of the Nation's population in the South and West increased from 48% in 1970 to 53% in 1982.

The movement of the population to the Sunbelt States, as well as changing economic conditions, particularly in industrial areas which have suffered from above average unemployment rates and plant closings, is reflected in the pattern of retail sales by geographic region of the U.S.

Distribution of Retail Sales By Region 1979-1983
(Percent of Total Retail Sales)

	1983	1982	1981	1980	1979
Total retail sales	100.0%	100.0%	100.0%	100.0%	100.0%
New England	6.3	6.1	6.1	5.9	5.9
Middle Atlantic	15.0	15.1	14.9	15.3	15.0
East North Central	16.7	17.1	17.4	17.8	18.6
West North Central	7.2	7.3	7.2	7.2	7.5
South Atlantic	16.7	16.1	16.1	15.9	15.5
East South Central	5.6	5.5	5.4	5.6	5.7
West South Central	11.2	11.5	11.5	11.0	10.5
Mountain	5.4	5.5	5.5	5.4	5.2
Pacific	15.8	15.8	16.0	16.0	15.9

Source: U.S. Department of Commerce
Current Business Reports,
Revised Monthly Retail Sales & Inventories BR-13-83S

RETAIL SALES BY METROPOLITAN AREA

According to Sales & Marketing Management magazine, the Los Angeles/Long Beach metropolitan area had the highest level of retail sales in the U.S. in 1983, with $41.6 billion or 3.5% of the total for the entire country. New York ranked second while Chicago was in third place. Complete results for the top ten metropolitan areas, as ranked by Sales & Marketing Management, follows.

Retail Sales by Leading Metropolitan Area, 1979, 1983

Rank 1983	Rank 1979	Metropolitan Area	Total Retail Sales ($ Mil.) 1983	Total Retail Sales ($ Mil.) 1979	% Change 1983/1979	% of Total U.S. Retail Sales 1983	% of Total U.S. Retail Sales 1979
1	1	Los Angeles/Long Beach	$41,630.3	$31,088.9	+ 33.9%	3.5%	3.5%
2	3	New York	33,123.4	29,054.4	+ 7.2	2.8	3.3
3	2	Chicago*	31,119.3	30,308.7	+ 2.6	2.6	3.4
4	4	Detroit	22,832.6	20,647.7	+ 10.6	1.9	2.3
5	5	Philadelphia	22,401.2	17,376.0	+ 28.9	1.9	2.0

(continued)

TRENDS IN RETAIL TRADE

RETAIL SALES BY METROPOLITAN AREA

Retail Sales by Leading Metropolitan Area, 1979, 1983
(continued)

Rank 1983	Rank 1979	Metropolitan Area	Total Retail Sales ($ Mil.) 1983	Total Retail Sales ($ Mil.) 1979	% Change 1983/1979	% of Total U.S. Retail Sales 1983	% of Total U.S. Retail Sales 1979
6	7	Boston/Lowell/Haverhill/ Brockton/Lawrence	$22,190.5	$14,664.2	+ 51.3%	1.9%	1.7%
7	10	Washington, D.C.	20,844.0	13,637.0	+ 52.8	1.8	1.5
8	8	Houston	20,315.2	14,501.1	+ 40.1	1.7	1.6
9	11	Nassau/Suffolk	15,389.1	11,144.4	+ 38.1	1.3	1.3
10	9	Dallas	14,274.8	13,699.8	+ 4.2	1.2	1.5

*The high rank of Chicago in terms of retail sales reflects the mail-order headquarters operations of Sears, Roebuck & Co. and Montgomery Ward & Co.

Source: Sales & Marketing Management
Survey of Buying Power, 1984 & 1980 Editions
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MULTI-UNIT RETAILERS

Large-scale retail organizations, operating many outlets, have been increasing their share of the market in many areas of retail trade, and the small independents are losing ground. The Department of Commerce compiles data on sales based on a sample of companies which had 11 or more retail establishments within the same retail trade classification.

Multi-unit organizations of 11 or more stores accounted for 35.4% of total sales in 1983, up from 34.3% in 1979. Concentration of business among the larger organizations is most marked in department stores. Here about 96% of sales is garnered by the multi-unit organizations. Notable gains have been made by multi-unit specialty store operators--those with 11 or more stores have upped their share of total retail trade from 36.8% in 1979 to 41.2% last year. The single shoe store is pretty much a thing of the past. Operations with 11 or more shoe stores have increased their share of total sales from 41.4% in 1979 to over 51% in 1983.

Multi-units'* Share of Retail Sales by Store Type, 1979-1983

	Percent of Total Sales in Each Store Type 1983	1982	1981	1980	1979
Total retail sales	35.4%	36.3%	35.6%	35.1%	34.3%
Auto & home supply stores	20.6	20.6	20.6	20.1	22.3
General merchandise group stores	90.2	90.1	90.0	90.9	90.1
Department stores	95.7	95.6	95.8	97.2	96.0
Variety stores	78.4	80.4	79.8	80.6	77.2

(continued)

TRENDS IN RETAIL TRADE

MULTI-UNIT RETAILERS

Multi-units'* Share of Retail Sales by Store Type, 1979-1983

	Percent of Total Sales in Each Store Type				
	1983	1982	1981	1980	1979
Food stores	54.4%	54.4%	53.5%	52.0%	52.5%
Apparel & accessories stores	41.2	39.2	37.2	36.8	36.8
Women's apparel stores, incl. furriers	44.9	43.4	43.7	43.1	42.0
Family clothing stores	48.6	47.2	45.4	44.1	46.4
Shoe stores	51.4	48.7	41.5	41.6	41.4
Eating places	23.4	23.7	23.4	23.2	22.7
Drug & proprietary stores	55.7	54.0	53.2	52.9	50.4

*A multi-unit is defined as a store group with 11 or more outlets

Source: U.S. Department of Commerce,
Current Business Reports,
Revised Monthly Retail Sales & Inventories BR-13-83S.

RETAIL STORES/RETAIL EMPLOYMENT

Every five years the U.S. Bureau of the Census compiles a complete census of retail trade in the U.S. This provides benchmark data for the on-going reports issued by the Census Bureau (Department of Commerce), and sales information in greater detail. Even more important, the census reports provide information on the number of retail outlets by type of business, concentration of stores and sales by size of firm, regional data and sales by merchandise line in each store type.

The most recent census compiled by the Bureau covers operations in the year 1982. To date, only preliminary information has been released on number of outlets and total sales by outlet type, total annual payrolls and number of paid employees by store type. All figures available to date from the 1982 census of retail trade are preliminary, subject to revision in final reports which will be issued by the Census Bureau in great detail over the next two years. (The following data on establishments (individual stores) covers those outlets with paid employees which were in business at the end of the year. Employment figures cover establishments with payroll which were in business anytime during the year.)

TRENDS IN RETAIL TRADE

RETAIL STORES/RETAIL EMPLOYMENT

Overall, the number of retail establishments in operation in the U.S. increased 1.4% in 1982 compared with 1977. On a percentage basis, the biggest gain in number of stores was noted for shoe stores--up 47.7%. This gain was due to a large extent to the opening of specialized athletic footwear stores. Next in rate of expansion were children's and infants'.wear stores (up 22.7%). Registering the sharpest decline was the number of variety stores (-23.6%). These outlet types, specializing in very low-priced items, have not been able to survive in the face of inflation and pressure from large-scale discounters.

Number of Establishments & Employees in the Retail Industry, 1977, 1982
(Numbers in Thousands)

	Number of establishments* (With payroll)			Paid Employees		
	1982(p)	1977	% Change 1982/77	1982(p)	1977	% Change 1982/77
Total retail trade**	1,322.1	1,303.6	+ 1.4%	14,416.6	13,040.1	+ 10.6%
Selected types of outlets						
Food stores	176.2	171.6	+ 2.7	2,346.4	1,959.0	+ 19.8
Automotive dealers	89.2	94.8	- 5.9	1,037.3	1,114.7	- 6.9
General merchandise group stores	34.0	38.4	-11.3	1,841.0	2,016.9	- 8.7
Department stores	10.0	8.8	+13.9	1,523.4	1,644.1	- 7.3
Variety stores	10.8	14.2	-23.6	155.7	214.2	- 27.3
Eating & drinking places	318.8	308.6	+ 3.3	4,640.1	3,758.2	+ 23.4
Gasoline service stations	116.1	146.5	-20.7	604.2	672.7	- 10.2
Building materials, hardware, garden supply, & mobile home dealers	66.0	65.7	+ 0.4	503.8	470.1	+ 7.2
Apparel & accessory stores	133.9	114.8	+16.6	986.2	839.7	+ 17.4
Men's & boys' clothing & accessories	17.4	20.6	-15.6	123.0	145.3	- 15.3
Women's clothing, specialty stores & furriers	51.0	44.4	+15.0	400.5	349.0	+ 14.8
Family clothing stores	17.9	16.0	+12.2	219.5	185.6	+ 18.3
Shoe stores	36.0	24.5	+47.4	190.3	121.2	+ 57.0
Children's & infants' wear stores	5.3	4.3	+22.7	24.0	21.2	+ 13.2
Furniture, home furnishings & equipment stores	93.3	91.7	+ 1.8	540.3	512.8	+ 5.4
Furniture stores	29.6	31.3	- 5.6	213.6	220.2	- 3.0
Home furnishings stores	24.6	22.1	+11.4	122.6	104.2	+ 17.7
Household appliance stores	10.5	12.2	+13.9	59.3	65.2	- 9.1
Drug & proprietary stores	48.6	47.2	+ 3.1	491.3	459.5	+ 6.9
Sporting goods stores, bicycle shops	20.1	17.2	+16.8	106.2	77.3	+ 37.4

*Leased departments are included in the kind of business they are in, as if they were separate establishments. They are not consolidated with kind-of-business data for stores in which they are located.

**Includes store types not separately listed.

Source: 1982 Census of Retail Trade (preliminary report)
United States Industry Statistics, RC82-SUM-1(P)
1977 Census of Retail Trade
Geographic Area Series, United States, RC77-A-52

MULTI-DIVISION RETAIL OPERATORS

The nation's seven largest multi-division retail operators are maintaining a steady level of expansion, adding new department stores and diversifying into non-traditional store-types. Taken together, the seven account for an increasing proportion of total retail sales and store units. In 1983, their combined sales volume exceeded $32 billion, a gain of more than 15% over the previous year.

Sales & Number of Stores Operated by Multi-Division Operators

Company	Sales (in millions of $)			Number of Stores (all types)		
	1983	1982	1977	1983	1982	1977
Federated	$8,690	$7,699	$4,923	551	508	323
Dayton Hudson	5,661	4,943	2,126	1,075	981	474
May Department Stores	4,229	3,670	2,193	1,468	1,272	647
Carter Hawley Hale	3,633	3,055	1,648	1,034	961	548
R.H. Macy	3,468	2,979	1,661	93	92	76
Allied Stores	3,216	2,733	1,797	533	512	151
Associated Dry Goods	3,189	2,751	1,539	247	245	139

Source: Fairchild's Financial Manual of Retail Stores.

No longer are these giants content to count only on the progress of their department store outlets to insure corporate profitability. Though they all still have a strong commitment to department store retailing--particularly Macy's, which chooses to remain solely within this format--there has been a major effort to diversify into specialty, discount and shoe stores, as well as supermarkets.

Federated

Leading the way is Cincinnati-based Federated. The retailer, known for its upscale Bloomingdale's and I. Magnin chains, has taken aim at the baby-boom generation with its new moderate-priced MainStreet stores. Located in the suburbs of Chicago, these stores are trying to carve a niche between the medium-to-low priced mass merchandisers and the higher-priced department stores. They are targeted at young families (25-40) with growing children, those that can't afford designer clothes but still like fashion. MainStreet relies almost entirely on accepted brand names such as Levi and Vanity Fair--instead of designer names and private labels--to reach its "middle market."

A further effort at diversification by Federated is Filene's Basement, its Boston off-price division. Now a separate entity from Filene's (the department store), Filene's Basement, with its low-cost designer lines, is targeted at upscale consumers who are primarily interested in fashion bargains. The growing need for children's apparel, as the baby boomers have their own offspring, prompted Federated to acquire The Children's Place in 1982. Other Federated operations include its low-end discount outlets--Gold Circle and Richway--and its $1.5 billion Ralph's supermarket chain (127 supermarkets in Southern California).

Federated (continued)

Federated's capital expansion outlays totaled approximately $2 billion in the 1981 to 1985 period. Of that amount, 70% was invested in department stores, 12% in supermarkets, 10% in its two discount chains and the remaining 8% in its three newest divisions--MainStreet, Filene's Basement and The Children's Place. Expenditures for the 1984 to 1988 period are planned at $2.5 billion to $3 billion. This sum will be allocated differently as 65% of the outlays are earmarked for department stores, 10% will be spent on both supermarkets and the discounters and the new operations will receive 15%.

There is also a shift at Federated in planning for new store construction. In the 1981 to 1985 period, 49% of capital spending was targeted for additional outlets. Money spent on remodeling existing stores was only 26%. In the 1984 to 1988 period, however, investment in new stores will fall to 39% while remodeling will rise to 35%.

Dayton Hudson

This Minneapolis-based retailer, the second largest multi-division operator, has continued its thrust into non-traditional forms of retailing. Its department store sales contributed only 22% of total volume (led by the now-combined Dayton's and Hudson's). The big growth vehicles for the retailer in 1983 were the Target and Mervyn's divisions.

Target is one of the leading upscale discounters in the nation. Its primary market is young and active. Entry into the southern California market in 1983 helped Target account for 43% of Dayton Hudson's total sales. Mervyn's is a softline store stocking nationally branded and private label apparel, accessories and household softgoods. It seeks to be highly promotional, popular-priced and value-oriented. It is a "trend merchant" moving swiftly to capitalize on consumer fashion preferences, carrying such trendy items as decorative housewares (e.g., copper tea kettles) and more dress-up and activeware classifications.

May Department Stores

Department store sales gained 12.6% for May in 1983 as they accounted for 71% of corporate sales. Its largest division--May Co., California--is presently involved in a major battle for market share in the Los Angeles area with three other retailing giants (see section on Department Stores--Merchandise Mix).

May has expanded its commitment to other retailing activities as well. Its Volume Shoe division had 1,389 self-service family shoe stores in 34 states. They produced the largest store-for-store sales gain among the May retail divisions (13.4%). The Venture discount division accounted for 19% of May sales by offering customers in its economically depressed Midwestern markets low-priced quality merchandise.

EVOLUTION OF RETAILING ORGANIZATIONS

MULTI-DIVISION RETAIL OPERATORS

Carter Hawley Hale

While department stores accounted for the majority (66%) of sales in 1983, it was Carter Hawley Hale's fashion store group that registered the largest percentage increase (22.9%). Consisting of such well-known specialty retailers as Neiman-Marcus and Bergdorf Goodman, this group relied on narrow and deep assortments of trendy merchandise to achieve high profit margins. The company also operates Contempo Casuals and 71 women's sportswear mall shops in California. (Waldenbooks, their nationwide retailer of books, has been sold to K mart.)

R.H. Macy

Macy's is the only multi-division retail operator to improve its market share solely within the department store format. Instead of allocating a percentage of its capital spending budget to specialty and/or discount operations as the others have done, Macy's succeeded in improving its internal productivity by reallocating non-productive space to more efficient use. Its stores have veered sharply into fashion, with a continuing evolution upwards from moderate to better-price. Designer merchandise is prevalent in ready-to-wear assortments. Macy's upgrading of both merchandise quality and promotional levels boosted profits 37.7% on a sales gain of 16.4% in 1983.

Macy's New York's expansion plans for the opening of new department stores are ambitious, highlighted by the opening of ten branch stores over the next six years in southeastern Florida and Texas.

Allied Stores

Allied, which diversified into specialty operations with its 1979 acquisition of Bonwit Teller and Plymouth Shops, still derives the bulk of its sales volume (82%) from its department stores. All of Allied's department stores, with one exception, posted profits in 1983. The highest sales increases came from hard goods, particularly decorative home furnishings, furniture/bedding and consumer electronics.

Typical of the competitiveness of Allied's department stores is Jordan Marsh in New England. As that region experiences a shift from manufacturing to service and high technology industries, it has been necessary for Jordan Marsh to upscale its merchandise for its new white-collar clientele. There has been a new emphasis on fashionable career-oriented clothing. Jordan Marsh has also increased the quantity of its direct mailings and special events presentations.

Associated Dry Goods

Operating on the premise that the number of affluent consumers will increase substantially over the next 15-20 years, Associated Dry Goods has defined its three areas of emphasis for the years ahead. First, ADG will seek to perpetuate the success of its high-quality department store division. Growth will be concentrated on the most profitable chains, led by Lord & Taylor. ADG has targeted a new market for Lord & Taylor--New Orleans--with expansion scheduled for 1986. Private label is gaining consumer acceptance in ADG's department stores. Its portion of the merchandise in ADG department stores will be increased from its present level of 18%.

MULTI-DIVISION RETAIL OPERATORS

Associated Dry Goods (continued)

A second ADG goal is its entry into the upscale discount segment of the marketplace. The 1981 acquisition of Caldor, a $1 billion discount operation in six Northeastern states, has given ADG the means to broaden its retail base. The third ADG venture is in the rapidly growing field of off-price retailing. In 1983, it purchased Loehmann's, the nation's largest discounter of high-quality women's apparel. Loehmann's ability to buy at lower than normal prices by purchasing manufacturers' overruns (often for cash and on short notice) has enabled it to sell designer clothing at prices one-third to one-half below those of department stores. Its upscale market appeal has led to the opening of 67 stores in 25 states.

MASS MERCHANDISERS

In analyzing retailing and merchandising trends, the enormous sales volume of the mass merchandisers makes an understanding of their operations essential. The influence of the major chains is felt throughout the industry as they attempt in the 1980's to reposition their stores, in some instances trying to change images that have been built up over decades.

The leading mass merchandiser-- Sears, Roebuck--is the world's largest retailer. Ranking right behind Sears in sales by all retailers are two other mass merchandisers--K mart and J.C. Penney. Rounding out the list are Montgomery Ward and F.W. Woolworth. Retail performances for the five mass merchandisers, in fiscal 1983, are as follows:

Chain	Sales (000's omitted)			Number of Stores	
	1983	1982	% Change	1983	1982
Sears, Roebuck & Co.	$25,089,000	$20,667,000	+ 12.9%	813	831
K mart Corp.	18,878,900	17,040,800	+ 10.8	2,493	2,569
J.C. Penney Co., Inc.	12,078,000	11,414,000	+ 5.8	3,819	3,861
Montgomery Ward & Co.	6,646,000	6,143,000	+ 8.2	325	389
F.W. Woolworth Co.	5,482,000	5,157,000	+ 6.3	5,276	5,124

Source: Fairchild News Service, August 23, 1984 (WWD, DNR).

The mass merchandisers have begun the task of overhauling their merchandise assortments and updating the look of their stores. Many felt that they needed to expand the breadth of their clientele, not relying so much on hard goods purchasers. Poorly performing lines have been cut, store presentations have been improved and trendier, more fashion-oriented customers have been sought. A look at each of the five mass merchandising giants individually reveals how they are meeting the challenge of the '80's.

EVOLUTION OF RETAILING ORGANIZATIONS

MASS MERCHANDISERS

Sears, Roebuck

In 1983, the company began a five year, $1.7 billion capital investment program to refurbish 600 of its outlets according to its "Store of the Future" concept. The essence of the program is the bringing together of distinctive product lines in an attractive and efficient manner. This effort also calls for the construction of 62 stores, also adhering to the new format, nationwide.

A remerchandising of nearly 730 product lines is, obviously, no easy task. Sears executives spent countless hours considerating the logical progression of customers through their stores and how to maximize sales by placing one department in close proximity to another. The end result was a grouping of product lines so that merchandise could be placed "where the customer expects to find it." The upgrading program has made Sears stores more closely resemble traditional department stores. There are now numerous "boutiques" for both soft and hard line goods within the major body of the stores.

Sears stores are devoting more floor space to apparel and home fashion departments, supplementing longstanding private label merchandise with nationally branded goods. Its upscale Cheryl Tiegs line is helping to create a new fashion consciousness at Sears that its longstanding customers seem to have adapted to very well. Just the same, the chain is maintaining its traditional hard goods operations, best represented by its automotive centers. Sears sells 37% of the nation's car batteries, as well as 22% of all paint, 32% of all dishwashers and 46% of all tool sets.

Another major undertaking by Sears in recent years (starting in 1981) has been its move into the financial world. Sears has become, in effect, a one-stop money store. The chain has brought together leaders in their respective fields--Allstate insurance, Dean Witter Reynolds stock brokerage and Coldwell Banker real estate. Sears Savings Bank (a California savings and loan association) and Greenwood Trust Co. of Delaware (a commercial bank) are two recent ventures. The operations continue to do business in their traditional offices and in central locations within Sears stores. These financial centers, representing a new channel of distribution for the member companies, are a natural outgrowth of Sears' 40 million credit card customers.

What's on the horizon for Sears? It has recenlty joined with IBM and CBS in a videotex enterprise that could allow home shopping, bank transactions and bill-paying through home computers. It has also made arrangements with American Satellite Co. for a voice, data and video conferencing network.

K mart

The "new" K mart places heavy emphasis on increased soft goods sales, in particular the introduction of name-brand apparel in its merchandise assortments. K mart has succeeded in getting its customers to trade up in their fashion tastes.

The chain has also implemented changes in other departments in its stores. There has been a marked growth in the installation of new houseware centers stressing bed and bath products, kitchen utensils and home electronics. Product lines of prestige cosmetics and stationery have been readjusted.

MASS MERCHANDISERS

K mart (continued)

K mart's new store expansion has been scaled back, with the debut of only 30-35 units this year. Instead, the focus has shifted toward increasing productivity in existing outlets. Construction teams are scheduled to work throughout the year in an effort to remake most stores so they better reflect the upgraded product mix. The new layout and design in K marts will highlight stylish fashions.

K mart is increasing its effort at diversification with its Designer Depot off-price apparel stores. Initiated in 1982, there were 29 units by the end of 1983, with 30 expected to open in 1984. Their present concentration is in the Midwest. A positive response to another K mart venture--its first Accents off-price home fashions and housewares store--augurs well for future expansion in 1984. Accents offers top-of-the-line crystal, china and household accessories at competitive discount prices. In addition, K mart has spent $300 million to acquire Waldenbooks from Carter Hawley Hale.

Like Sears, K mart is also making a push into the financial services sector. It provides a full line of life, health and accident policies through K mart Insurance Services, its wholly owned insurance company. A banking program is becomming operational now as well.

J.C. Penney

The Number 3 retailer is upscaling in a big way. It is in the midst of a $2.5 billion modernization program scheduled to run until 1988. The end result will be a chain of trendy-looking stores that are designed to entice the "contemporary" fashion-conscious customer.

Penney is seeking a restructuring of its soft-to-hard lines ratio from 60-40 to 75-25. The new merchandise mix is featuring the much-heralded Halston III private label line. Career women are being targeted with a new apparel line supplied by Ship 'n Shore. An analyst has stated that such changes have put Penney on its way to becomming "the Bloomingdale's of middle America."

Penney is clearly taking aim at traditional department store customers with its appeal to fashion. The typical Penney customer will shop there nine times a year but patronize competitive department stores with double the frequency. Penney hopes to lure away part of this excess traffic, beginning with its $10 million "Salute to Italy" promotion. It is to feature merchandise of Italian origin or design, including apparel, footwear and home furnishings (such as stainless steel cookware). Leading the effort is a visit by Sophia Loren and appearances by Italian chefs and artisans.

In contract to Sears, Penney's new soft line emphasis has necessitated a downscaling of its hard lines. It has discontinued its major appliance, hardware, lawn and garden, and automotive centers. Toys are being cut back. One Penney executive has attributed the decline of these departments to the primary locale of Penney's outlets--regional shopping malls. It is felt that customers in shopping malls are not as inclined to purchase such products.

EVOLUTION OF RETAILING ORGANIZATIONS

MASS MERCHANDISERS

Montgomery Ward

This troubled mass merchandising chain appears to have turned the corner after losing $415 million from 1980 to 1982. In 1983, Ward earned $40 million, its first profit in four years. Its write-off of bad debt last year--$104 million--was the lowest it has incurred since 1980. There is a new momentum at the chain after years of skyrocketing operating costs and poor productivity.

Ward has revamped its merchandising strategy, focusing on brand name goods. It has upgraded its presentation to attract an upscale, quality-conscious shopper. To cite one example, Ward is now among the top five retailers of Sony television only one year after it began carrying the line.

The chain has indicated the direction of its future marketing efforts with the unveiling of prototype "stores-within-a-store." What Ward has done is to develop specialized merchandise groupings that are to be opened within existing outlets as self-contained units. The seven different product categories designated by Ward are the following: home, apparel, appliance, automotive, electronics, home care, and recreation/leisure. The premiere Ward Home Store is a 27,000 square foot selling area inside the 100,000 square foot Colorado Springs store. Its one-of-a-kind appliance center is a 6,818 square foot unit within the Winrock Center (Albuquerque) shopping mall, equipped with both a home economist for consultation and a full-service department. If these test outlets prove successful, Ward's plans call for these specialty units to be grouped together under one roof for a complete store. Some may remain as freestanding specialty stores. Ward's goal is to be equal to or better than competing small specialty stores in its markets.

F.W. Woolworth

One of the most successful chains in the country in developing specialty stores, Woolworth will continue this emphasis for the foreseeable future. It has expanded from its initial 1963 acquisition of the Kinney Shoe Corporation to encompass a collection of over 2,500 specialty stores. This format was discussed in detail in the section on specialty stores.

Related to this growth has been the chain's off-price retailing diversification. In this regard it has not done as well, with its oldest and largest off-price store--J. Brannam--reporting a net loss of $7 million in 1983. Consisting of 38 outlets that sell brand name clothing and household linens, J. Brannam (for "Just Brand Names") is expected to be in the black very shortly. It has suffered from having occupied excess space in Woolworth's now-defunct Woolco discount stores.

Woolworth is also making a determined effort not to disregard its variety stores at the expense of other store-types. It is continuing a refurbishment of these general merchandise outlets at a rate of 10% of the 1,230 stores a year. One prototype being tested by Woolworth has been designed primarily for malls and city neighborhoods. As compared with the average Woolworth variety store, which can range up to 50,000 square feet, these outlets are no more than 20,000 square feet.

EVOLUTION OF RETAILING ORGANIZATIONS

DEPARTMENT STORES

Department stores accounted for $116.6 billion in retail sales in 1983, corresponding to 9.9% of total retail sales.

Year	Department Store Sales Volume (in millions)	% Change	% of Total Sales
1983	$116,658	+ 8.1%	9.9%
1982	107,863	+ 3.8	10.0
1981	103,926	+ 11.3	10.0
1980	93,345	+ 4.7	9.7
1979	89,159	+ 6.0	9.9

Source: U.S. Bureau of the Census, Monthly Retail Sales

The battle for market share in the retailing industry has put department stores on the defensive as never before. They are facing challenges from the high end and the low end of the retailing spectrum. Overall, their share of total retail sales has held up, but this has been accomplished by adopting new marketing strategies to maintain their competitive edge.

Top Department Store Divisions

The following is a listing of the leading department store divisions, by sales volume, 1983.

Rank	Company (and headquarters)	Parent	Units	Volume (in millions)
1.	Macy's New York	R.H. Macy	17	$1,125.0
2.	Bamberger's, New Jersey	R.H. Macy	23	1,125.0
3.	Macy's California	R.H. Macy	22	1,000.0
4.	Broadway Southern Calif.	Carter Hawley Hale	40	865.0
5.	Dillard's, Little Rock	Independent	66	847.5
6.	Bloomingdale's, New York	Federated	13	787.9
7.	Abraham & Straus, Brooklyn	Federated	15	731.8
8.	Hudson's, Detroit	Dayton Hudson	20	728.0
9.	May Co. California	May Dept. Stores	34	725.1
10.	Marshall Field, Chicago	Batus	21	700.0

Source: Stores, July 1984

Merchandise Mix

The merchandise mix within department stores has evolved over the years, reflecting a decrease in some hard goods lines even as health and beauty products have mushroomed and soft goods have remained relatively constant. The following shows sales of major merchandise lines as a percent of total store sales:

DEPARTMENT STORES

Merchandise Mix (continued)

Merchandise Lines	% To Total Store Sales 1982(p)	1977*	1972*
Women's & girls' wear	22.9%	21.1%	23.5%
Men's & boys' wear	12.7	13.7	12.0
Drugs, health & beauty aids	6.5	3.5	1.5
Curtains, draperies, dry goods	5.0	6.1	6.9
Major household appliances	3.7	4.1	4.5
Furniture & sleep equipment	3.0	3.4	3.2

(p) preliminary
*includes leased departments

Source: U.S. Bureau of the Census,
1982 Census of Retail Trade (Preliminary Report)

The higher gross margins on soft goods has prompted many department stores to provide increased floor space for apparel displays by stocking wider assortments. The wider merchandise assortments at department stores is an important variable in attracting customers. With the proliferation of working women, many simply do not have the time to travel to several different stores for their desired products. Department stores offer more categories of goods and, within these categories, provide lines of greater depth and breadth. One-stop shopping, which reached its level of prominence during the gasoline shortages of the mid-1970's, is still an important consideration for women today.

An analysis of department store merchandising and operating results indicates gross margins as a percent of net retail sales for major merchandise lines:

Merchandise Lines	Typical (Median) Gross Margins 1983	1976
Adult female apparel	43.7%	42.5%
Adult male apparel	43.1	41.7
Infants', boys', girls' clothing	41.6	42.5
Furniture	42.1	41.8
Appliances	30.9	31.1
Domestics, draperies	41.1	40.8

Source: National Retail Merchants Association,
Merchandising & Operating Results

The growth of gross margins for adult apparel has prompted department stores such as Bloomingdale's to renovate their floor presentations with the purpose of increasing sales productivity per square foot (see section on Renovation of Existing Stores).

EVOLUTION OF RETAILING ORGANIZATIONS

DEPARTMENT STORES

Merchandise Mix (continued)

The strong economy has encouraged stores to beef up stocks and be more fashion-forward, which, in turn, has led to more markdowns. Having an edge over the competition in merchandise mix has prompted the so-called Battle-For-Los Angeles among four department store giants in Southern California. Competition between the four has intensified in the last year as price-cutting to stimulate sales is as prevalent as during recessionary times. They have each attempted to broaden their merchandise assortments in key classifications to capitalize on the improved economy.

The Broadway, a division of Carter Hawley Hale, led the others in 1983 with a 19% comparable-store sales increase. Market share gains have come in sportswear, intimate apparel, shoes and parts of the home store. In targeting the "emerging 30s" customer, The Broadway has stocked more trendy and better-price women's apparel from such designers as Norma Kamali and Anne Klein.

J.W. Robinson, an Associated Dry Goods division, has seen its market share eroded by the upscaling at The Broadway. It has countered with a strong emphasis on home textiles, children's wear, and cosmetics. It staged the most successful fragrance launch in many years in Southern California by introducing Giorgio in February 1984.

Additional competition is provided by Bullock's, a division of Federated Department Stores. The chain has reallocated space in its stores, giving more square footage to contemporary, bridge and designer sportswear. Merchandise by upscale designers such as Perry Ellis has been well-received.

While The Broadway, J.W. Robinson and Bullock's appeal to the upper-moderate customer, May Co. is targeting the budget and moderate-price customer. This division of May Department Stores Co. has placed a premium on high turnover and promotion. Rather than the above three department stores, it is competing for the same market as Mervyn's, the value-oriented discount division of Dayton Hudson.

Expansion of Services

Another major undertaking by department stores is the channeling of cash flow back into their present outlets. The goal is to increase productivity by giving more service to customers. Service is perhaps the key difference between department stores and other store-types such as the off-pricers.

Department stores are also capitalizing on their ability to be among the quickest at spotting fashion trends. More and more outlets have opened designer boutiques to compete with specialty stores. With half of the female population in the workforce, they, as well as males, are spending more on clothing than ever before. Apparel, as noted previously, accounts for the majority of department store sales.

Stores, such as Carson Pirie Scott, are courting customers with complimentary services like never before. This Chicago-based chain provides shopping-at-home, travel planning and wedding consultations. Its Executive Delivery Service makes it perhaps the only retailer in the nation to deliver merchandise within 24 hours to downtown offices at no charge.

DEPARTMENT STORES

Expansion of Services (continued)

Many department stores are making a major effort to expand store hours, including Sundays, after past cutbacks. Customer surveys are becomming a more frequently used research tool to ascertain attitudes toward such service areas as cleanliness, fashionability and quality. There is also a growth in the number of customer-oriented programs geared to store personnel, led by Gimbel's CARE. The program, which stands for Customers Are Really Everything, consists of pep talks, committees and seminars all designed to galvanize salespeople into making that extra transaction.

And then there are a series of innovative services offered by retailers made viable by the expanded use of computers. Rich's (an Atlanta division of Federated) now leases automobiles, even arranging the financing. Woodward & Lothrop has entered the apartment-hunting business in the Washington, D.C. area. The cost to customers for this service: free.

Expansion of Stores and Selling Areas

Rapid expansion of department stores is a thing of the past as most department store companies allocate substantially higher percentages of their capital spending to specialty and discount operations. Department stores continue to be downsized and the pace of new store openings has slowed.

Nevertheless, there are several changes in department store selling that are notable, particularly in the areas of suburbanization, the revitalization of downtown, renovations within existing outlets and nationalization.

To varying degrees, these forces are affecting the operations of all types of large-scale retailers, not only department stores. The developments discussed below in relation to department stores, therefore, apply to the retail picture in general.

Suburbanization

Though department store volume, as a group, is still concentrated in the top 10 metro markets, the mass merchandisers are considerably more dispersed. No single metro market represents as much as 5% of total sales to Sears, K mart, J.C. Penney or Woolworth. Macy's, in contrast, generates 20% of sales from its most important market, New York.

Branch store development in the suburbs of the major cities is still growing, although the pace has slowed for many operators. Burdines, a Federated division, has opened 25 department stores in Florida. Its expansion program in 1984 will result in the debut of stores in Gainesville, Coral Springs and Coconut Grove. This commitment to branch openings by Burdines beyond its Miami base is illustrative of department store attempts to saturate their markets.

Revitalization of Downtown

When called upon to picture what the typical mall looks like, images of stores in a suburban location come to mind. The shopping mall, however, is going urban.

Revitalization of Downtown (continued)

In other words, the demise of downtown is, at least, postponed. Most major metropolitan areas now have, or are working on, their entries: Herald Center and the South Street Seaport in New York; Grand Avenue in Milwaukee; Water Tower Place in Chicago; Faneuil Hall Marketplace in Boston; and Harborplace in Baltimore, to name a few. Blighted areas are being put to commercial use like never before.

Tenants in these urban shopping centers are selected on the basis of their merchandising and marketing styles. The goal is to create a special ambience for the upscale residents, tourists and local white-collar workers who frequent them. These high grossing stores are generally housed in a mall of unique construction and supplemented by a festive atmosphere. There are art and floral shows, singers, jugglers and the like, all designed to distinguish the mall from traditional suburban shopping centers. Whereas the suburban malls draw patrons from the immediate vicinity, their urban counterparts have a significantly broader range, attracting people from 50 to 100 miles away.

The proliferation of urban shopping centers, and vertical malls, like Water Tower Place in Chicago, in conjunction with the development of office complexes, hotels, residential buildings and convention centers around the nation, are helping to make the rebirth of the American city a reality.

Renovation of Existing Stores

Department stores, despite the channeling of their expansion dollars into other store-types, continue to invest in the renovation and expansion of existing outlets. The principal goal is to increase sales productivity per square foot.

Bloomingdale's, for example, is not opening a branch in 1985, as in past years, so that it can remodel its flagship. Its three-year renovation could cost more than $22 million as 35,000-40,000 additional square feet of selling space will be added to the nearly 500,000 square feet currently in use. Each floor will be given a more sharply defined identity including the construction of designer boutiques.

One major distinction between department stores and other outlets is the upscale decor in many department stores. Though off-price stores may not be the piperack operations that they once were, most just simply cannot compete with department stores in terms of atmosphere. And atmosphere, whether consumers realize it consciously or not, is significant in establishing an environment that is conducive to selling. Many consumers will pay somewhat inflated prices if a store has fancy lighting, displays, etc.

Nationalization of Department Stores

The differential in growth rates from one locale to another means the transfer of markets. It has been projected that economic growth in the 1980's will be of a magnitude that allows for an average of one new regional shopping center in every metropolitan area in the country. The shift of industry and population to the Sunbelt means that it can sustain several centers while the areas the population has drained from won't be able to support any.

DEPARTMENT STORES

Nationalization of Department Stores (continued)

The end result of this has been the expansion of department store chains well beyond their traditional trading areas, in effect creating national chains. Bloomingdale's, for one, is attempting to become America's national lifestyle store. The New York City-based retailer opened a Miami unit in 1984. A Dallas unit was opened a year earlier. A New Orleans store is scheduled for 1986 and Los Angeles has been designated as a future target.

Another major department store that is going national is May. The St. Louis-based firm has budgeted $300 million to open 22 new department stores as part of its five year program, to end in 1987. Units are to be built in California, Washington, D.C., Baltimore, Denver and St. Louis.

Macy's, Lord & Taylor and Saks Fifth Avenue are among the other major retailers rapidly expanding their operations beyond their traditional or original trading areas.

Diversification

To counteract strong competition on all sides from off-price retailers, discounters and traditional retailers, department store operators are expanding into other areas of retailing. The message they have received is, in effect, "if you can't beat 'em, join 'em".

A major strategy in this diversification is the opening of apparel specialty stores. These outlets, if managed properly (and the department store operators provide a good deal of merchandising know-how to them), offer prime opportunities for substantial returns-on-investment. Federated, the nation's largest department store chain, now has a representative in the fast-growing children's apparel field--The Children's Place. Batus, well-known for such department stores as Marshall Field and Gimbels, also operates Saks Fifth Avenue. Allied acquired Bonwit Teller and Brooks Brothers, while Carter Hawley Hale operates what is perhaps the most "special" specialty store of all--Neiman-Marcus.

As cited previously, several major retailers have purchased off-price retailing chains, particularly to protect their women's and children's operations (60% of their profits). These outlets, such as Associated Dry Goods' Loehmann's, help support the department stores' bottom line with high sales volume per square foot. The staying power of off-price has made it necessary for such acquisitions, with department stores otherwise conceding a considerable share of the market.

Discount stores are not exempt from department store acquisitions, either. The leading upscale discount chain in America--Target--is owned by Dayton Hudson, a name synonomous with department store operation. May Department Stores' 1978 purchase of Volume Shoe--the nation's largest chain of self-service family shoe stores--is yet another example of this trend. In fact, only Macy's among department stores has been able to improve its market share position significantly through increased productivity solely within the department store concept. Though Macy's has, like other department stores, invested in free-standing home stores (furniture, electronics, appliances), its outlets are more for logistical purposes rather than an effort at diversification.

EVOLUTION OF RETAILING ORGANIZATIONS

SPECIALTY STORES

With the proliferation of specialists in most facets of society, it is no great surprise that this has extended into the retailing industry. Today one can go to a mall and find stores devoted to an exceedingly wide range of interests. Patronage at these outlets is fueled by the nation's baby boom, an entire generation of consumers that grew up with mall shopping.

Since profit margins, return-on-investment and expansion opportunities are usually greater in specialty retailing than in general merchandise stores, many small proprietors as well as the industry giants have tried to find the right fit for themselves. Their attempts to locate in malls are generally well received as mall developers seek the high productivity levels that specialty stores provide. Others are converting the sites of past general merchandise store locations (e.g., Korvettes, Woolco) to their own use. Still others are searching for excess space in oversized stores.

Despite the growing number of retail operators eager to acquire specialty stores, some large supermarket chains are going against the trend by divesting themselves of specialty store operations. Lucky Stores, the third largest supermarket chain in the nation, recently sold its apparel specialty stores--Pic-A-Dilly and It's-A-Dilly to The Limited, Inc. Stop & Shop Cos. sold Off-The-Rax, its women's specialty chain to Dress Barn. Still another example is the sale by Super Valu of its women's apparel chain--County Seat (estimated 1984 volume $200 million)--to Carson Pirie Scott.

One reason for the trading-up of department stores into specialty lines has been their desire to solidify their position with middle-to-upper income consumers. This points out the fact that while department stores have the traffic of the masses, many are seeking those at higher income levels. Specialty stores, with their narrower, deeper assortments at moderate-to-better prices depend on this clientele.

Top Specialty Chains

The following is a listing of the leading specialty chains, by sales volume, in 1983.

Rank	Company (and headquarters)	Parent	Type	Units	Volume (in millions)
1.	Radio Shack, Fort Worth	Tandy	Consumer Electronics	4,584	$1,961
2.	Mervyn's, Haywood, Calif.	Dayton Hudson	Apparel	109	1,689
3.	Toys "R" Us, Roselle Park, N.J.	Independent	Toys	169	1,320
4.	Marshall's, Woburn, Mass.	Melville	Off-price Apparel	174	1,062
5.	Saks Fifth Avenue, New York	Batus	Apparel	38	810
6.	Nordstrom, Seattle	Independent	Apparel & shoe	37	788

(continued)

SPECIALTY STORES

Top Specialty Chains (continued)

Rank	Company (and headquarters)	Parent	Type	Units	Volume (in millions)
7.	Lerner's, New York	Rapid American	Apparel	796	699
8.	Levitz, Miami	Independent	Furniture	89	644
9.	Petrie Stores, Secaucus, N.J.	Independent	Apparel	953	626
10.	Kinney Shoe, New York	Woolworth	Shoe	1,557	617

Source: Stores, August 1984

Of the major retailers that are investing in specialty stores, the goal of many seems to be an attempt to satisfy an array of consumer needs by operating several different chains of specialty stores. To cite one example of this, consider the specialty outlets owned by the U.S. Shoe Corporation:

Name of Division	Type of Merchandise
Casual Corner	women's medium-to-better grade apparel
Ups 'n Downs	junior sportswear for teenage girls
Caren Charles	updated, medium-priced apparel in misses sizes, ages 25 to 50
August Max	elegantly displayed, more sophisticated apparel
Petite Sophisticate	clothing in the petite size range (women under 5'4")
J. Riggings	a broad range of updated clothing for young men
Proving Ground	junior sportswear for teenage boys
Little Folks Shops	apparel for infants to pre-teens
Home Front	brand name home furnishings, including towels and bedspreads

Source: The U.S. Shoe Corporation Annual Report, 1983

The Limited, Inc. has recently acquired the apparel specialty stores, Pic-A-Dilly and It's-A-Dilly from Lucky Stores, Inc. The Limited is the largest operator of women's apparel specialty chains and has a volume well over $1 billion.

Woolworth is another key retailer diversifying through various specialty store formats. At present, the seventh-ranked chain in dollar volume has a product mix of 71% general merchandise sales and 29% specialty store sales. Woolworth has projected a large specialty store gain for itself by 1988, bringing its mix to 66% and 34%, respectively. It also estimates that by '88, the greater share of its operating income (55%) will be generated by specialty stores (as compared with only 41% today).

The major specialty chain owned by Woolworth is Kinney Shoe, the nation's largest specialty and family footwear retailer, with 1,557 outlets at the beginning of 1984. Some other Woolworth properties are Richman Brothers, promotionally-oriented men's stores; Lady Foot Locker, offering coordinated outfits for active women; and Holtzman's Little Folk Shop, a large children's apparel chain in a major growth segment of the marketplace.

EVOLUTION OF RETAILING ORGANIZATIONS

SPECIALTY STORES

Predictions that home-area sales will outperform apparel over the next decade have fostered the development of numerous home goods specialty chains stocking such essentials as housewares, textiles and tabletop goods. Sears and K mart have been required to upgrade their own home store assortments and displays to counter this trend. The mass merchandisers are likewise making a major effort to improve their share of the home computer market by drawing sales from computer specialty stores.

Designer Boutiques

Another trend in the area of specialty retailing is the penchant of many leading fashion designers to open their own boutiques. Already common in Japan and Europe, they are gaining increasing acceptance in the United States from consumers who prefer to buy their designer goods in these outlets rather than department stores.

Designers, among them Ralph Lauren and Giorgio Armani, are free to create the atmosphere in their boutiques that they feel will be most conducive to promoting their merchandise. Designers can control the display of their designs without conflict from a department store's private label goods. They are better positioning themselves to attract the upscale consumers who might be overwhelmed by the huge quantity of designer merchandise in a traditional retail store. Many consumers clearly prefer the opportunity to view their favorite designers' collections without distraction.

In bypassing the middleman in the distribution of their products, designers find opening their own boutiques to be profitable undertakings. Ralph Lauren anticipates sales of more than $10 million ($500 per square foot) from his new "retail showcase" in New York City. Scheduled to open by the end of 1985, it will feature all his licensed products in a store interior that he will personally design.

The newness of these operations has, thus far, prevented a major conflict with department stores. Some department store operators even contend that the increased awareness of designer lines created by the boutiques helps sales in their own stores. Ralph Lauren, whose New York accounts include Bloomingdale's, Macy's and Lord & Taylor among others, feels that his new shop will only "enhance the business for the stores" in the same trading area. With more and more designers opening their own boutiques, however, the market could eventually become oversaturated.

Specialty Stores for Working Women

In response to the vast growth of women in the workforce, a network of truly specialized outlets catering to the needs of women executives have begun service in the past few years. Found in most major cities, these stores are run by both independent proprietors and the large chains.

These stores place a premium on both time and service, recognizing that both are precious commodities to their upscale clientele. Among the benefits offered: individual and corporate wardrobe counseling; long and flexible store hours; phones in the dressing rooms; extensive computerized files on customers, including taste and manufacturer preferences as well as purchase records; in-store seminars and luncheons featuring top women executives. This phenomenon, though relatively new, has a good deal of momentum behind it and will expand as women continue to make gains in the corporate world.

EVOLUTION OF RETAILING ORGANIZATIONS

DISCOUNT STORES

The emergence of a new, more upscale breed of discount store is altering the retailing landscape. Discounters are repositioning themselves to reach a more affluent clientele. The goal is to reduce their dependence on low-income consumers whose discretionary spending is shrinking. With better quality merchandise, they hope to capitalize on a market with "higher taste levels than their incomes can support." Though these more stylish discount stores may lack the sophistication of upscale specialty stores, they are a considerable improvement from the piperack operations of the early discounters.

Discounters have taken note of consumer insistence on quality. The stores are upgrading their merchandise by stocking new lines of brand name apparel and by increasing the development of their own private label goods. They are attracting the "destined-to-be middle to upper income customer" that, in the past, has shopped in department store bargain basements.

Repositioning by the discounters appears to have had a positive effect on the industry. Retail sales from the 8,593 discount stores increased to $56.1 billion in 1983, a gain of 10.2% over the previous year, according to The Discount Merchandiser. (This includes K mart.) Among those generating and benefiting from this growth is Wal-Mart, whose compound sales growth rate of 39% for the past five years has made it one of the fastest growing retailers in the nation. The chain added 91 discount stores in 1983, 43 of them occupying former Woolco sites. Extra space has been allocated to apparel departments in the new outlets, taking advantage of the higher gross margins provided by soft goods.

Another leading discounter is Target, a division of Dayton Hudson. This chain has a distinct appeal to young, upscale families with active lifestyles. With this audience in mind, Target entered the Southern California market in 1983. The favorable response to this move helped boost Target sales by 29.3%, increasing productivity to $172 per square foot.

Caldor, Associated Dry Good's discount division, passed the $1 billion mark in sales in 1983. Located primarily in the Northeast, this chain maintains a policy of only stocking branded and first-quality merchandise, never closeouts or irregulars. Caldor has continued to add soft goods lines since first carrying them in the mid-1960's, to the point where they now constitute 30% of the merchandise mix. Caldor has held onto its affluent clientele, initially suburban New Yorkers, by upgrading its apparel lines, particularly with its Marc Robbins private label. Caldor, together with A.D.G.'s other recent acquisition--off-price Loehmann's--contributed 35% of the corporation's total sales volume and 27.5% of profits.

OFF-PRICE RETAILERS

Off-price retailers sell merchandise, including status or premium labels, at less than regular prices, made possible by buying from suppliers at cut-rate prices, limiting costs and turning stock quickly. The merchandise might be obtained from manufacturers in end-of-season liquidations of surplus merchandise; however, to an increasing extent in-season merchandise is being made available by vendors to off-price retailers when inventories are too large. (Discounters, on the other

hand, usually pay the same price for merchandise as everyone else and sell for less than the traditional retailers by doing a large volume and cutting back on services and other costs.)

By eliminating operating costs wherever possible--tight credit, no alteration service, little advertising of specific products--the off-pricers keep their expenses to a minimum. Staying clear of enclosed mall locations limits overhead for heating, air conditioning, etc.

The merchandise itself is generally "advantageously priced" by the manufacturers for the off-pricers. It consists of off-season goods, overruns, closeouts and irregulars. The purchases are frequently by cash and on very short notice. Since the goods provided are not usually in a broad or balanced range of sizes and colors, consumers must accept drastic inventory changes from week to week. Many consumers perceive this as a challenge rather than an obstacle in buying their merchandise.

It is imperative that off-pricers maintain a steady supply of goods or suffer the consequences. Dayton Hudson's Plum's chain, opened in March 1983 to much fanfare, was unable to assure a constant flow of the upscale merchandise it promoted. Plum's was sold after one year of operation to Ross Stores. Many off-pricers try to avoid similar situations by warehousing late-season purchases until the following year. Others have become aggressive in approaching manufacturers for current goods, with Marshalls going so far as to request made-to-order shipments. Marshalls now has its own private label merchandise and does a fair amount of importing to guarantee reliability.

Manufacturers, for the most part, support the efforts of the off-pricers. Department stores, in recent years, have been seeking many concessions from manufacturers that have been leaving them with more and more problems related to unsold merchandise and unpaid invoices. Unlike department stores, the off-pricers request few perks such as return privileges, extended payment terms, advertising support and markdown protection. Off-pricers enable manufacturers to adjust inventory and improve their cash flows.

It is essential for off-pricers to be sensitive to the needs of their suppliers if they hope to maintain a steady distribution network. Many off-pricers follow the lead pioneered by Marshalls in controlling the placement of merchandise. In essence, if a given manufacturer has a strong relationship with a traditional retailer in the same area as an off-price outlet, the off-pricer will refrain from stocking that brand of merchandise in a competing store. This prevents retailers from demanding that the manufacturer choose to supply either one or the other. The manufacturer, relieved of this problem, is more receptive to supply the off-pricer in other markets.

Some manufacturers, though a distinct minority, refuse to deal with off-pricers. A few have their own factory outlets for excess inventory while others don't want to do anything that may upset their standard distribution channels. The ability of off-pricers to acquire a particular brand they desire through third parties has further weakened the reluctance of manufacturers to deal with them.

EVOLUTION OF RETAILING ORGANIZATIONS

OFF-PRICE RETAILERS

The establishment and expansion of off-price outlets enables consumers to purchase national brands and designer merchandise at 20% to 60% below, or "off", traditional retailers' full markup prices. Such deep discounts on this merchandise have attracted a broad-based clientele and the market is far from being saturated.

Off-price retailing is currently a $7 billion industry, with its primary emphasis on apparel and footwear sales. Between 1979 and 1983, this format registered an annual compounded growth rate of 23.1%. Analysts expect a slight deceleration in growth to about 15% per year for the remainder of the 1980's. This would make the off-price sector a $25 billion network. Its share of the retail market is projected to expand from its present 6% to as high as 20%. Off-price doesn't appear to be creating more sales, it is just distributing the dollars differently. The off-price retailer buys goods directly from manufacturers to a greater degree than discounters, but is able to operate profitably with a lower markup than traditional retailers due to the lack of services offered to the customer.

Today there are some 10,000 stores nationwide selling off-price merchandise. Evidence of the health of the industry lies in the fact that many of the largest off-price operations are owned and operated by major retailers.

Off Price Chain	Parent Company
Marshalls	Melville Corp.
T.J. Maxx	Zayre Corp.
Loehmann's	Associated Dry Goods
Hit or Miss	Zayre Corp.
Filene's Basement	Federaded
T.H. Mandy	U.S. Shoe
J. Brannam	Woolworth

The off-pricers have developed a secure niche for themselves in the marketplace and the major retailers recognize this. Associated Dry Goods, with its prior emphasis on department store acquisitions (Lord & Taylor, J.W. Robinson), was willing to spend $96 million to purchase Loehmann's from private investors in May 1983. By yearend, Loehmann's was operating 67 stores in 25 states with sales in excess of $300 million. It is now the country's largest off-pricer of high-quality women's apparel.

Another major success story is that of Marshalls, the largest off-price retailer with expected sales this year of $1.1 billion, up from $830 million last year. There are 175 Marshalls across the U.S. and the company is planning to end 1984 with 210 outlets. A typical Marshalls has 30,000 square feet of men's and women's wear, children's apparel, lingerie, footwear and giftware. The majority of its stores are in strip centers, seeking to attract the traditional mall customer. A few of its stores are freestanding and some are in shopping centers though Marshalls' search for low-rent locations usually prohibits this. The chain is Melville's largest contributor to both sales and profits.

FACTORY OUTLETS

Those manufacturers choosing to open their own factory outlets do so with the primary intent of preventing off-price retailers from totally dominating the merchandising of excess inventory and seconds. Some manufacturers fear that, if unchecked, the off-pricers will disrupt regular distribution channels. Factory outlets eliminate many problems in this regard. With strict control on selling lines, they are less likely to end up interfering with long-standing accounts.

Manufacturers have joined together in creating upscale outlet malls attracting an affluent clientele by featuring such labels as Anne Klein and Evan Picone. Manufacturers have discovered that their factory stores "don't have to be the side door to a plant." These outlets will continue to squeeze off-pricers at the high end. As of June 1984, there were 35 factory outlet malls on the East Coast and in the Midwest in excess of 150,000 square feet. Plans call for the development of at least 40 or more of that scope.

One new addition is The Outlet Mall of New England which opened its first two wings in late 1984. Total mall space will be 240,000 square feet and it is expected to attract 50,000 shoppers per week to its Portsmouth, New Hampshire locale. Among the tenants are Amherst Sportswear, American Tourister, Executive Neckwear and Bert Paley.

SUPERMARKETS/HYPERMARKETS

The nation's premier European-style hypermarket made its debut in Cincinnati on October 16, 1984. The store, called Bigg's, is a combination supermarket and discount store. Both food and non-food products--including apparel, televisions, and some furniture--are sold through conventional checkout lanes (40 of them).

This low cost, high volume operation is a joint venture of Euromarche, a successful French hypermarket chain, and Super Valu, the Minneapolis-based supermarket chain. The hypermarket concept has been an established retailing format in Europe for several years. Bigg's was developed on a single selling floor encompassing 180,000 square feet. Its highly decentralized management system and the absence of such frills as coupons combine to produce everyday low prices. The store's policy is to charge consistently lower prices than the local Kroger and Federated units.

The success or failure of this initial outlet will have a strong impact on the future of hypermarket expansion in the United States. Both the present project team and other French and Belgian hypermarket operators will be looking for clues from the Cincinnati experiment. Whether the 18,000 customers that streamed through Bigg's on its first two days of business will return--or were just satisfying their curiosity--remains to be seen.

EVOLUTION OF RETAILING ORGANIZATIONS

SUPERMARKETS/HYPERMARKETS

The appearance of the nation's first hypermarket continues a trend begun in the early 1980's toward combining supermarkets and discount outlets. These combination supermarkets unite low-margin general merchandise/drug departments with food departments under one roof and through the same checkouts.

The synergistic attraction of the combos is evident as outlets such as Jewel have benefited from more volume when opening combo stores than from opening separate supermarket and general merchandise stores. Consumers are generally receptive to the opportunity for one-stop shopping as the store traffic generated by the food operation in combos fuels non-food sales. A key consideration in the success of combos is their proximity to other general merchandise outlets. In New England, for example, the consumer has so many nearby shopping alternatives that a supermarket may not be fulfilling a need by offering general merchandise within the store.

The concept of one-stop shopping in supermarkets is clearly a growing phenomenon. Shoppers at a branch of Safeway (the largest food chain) in Seattle can now purchase personal computers as well as apparel and hard goods. Though the number of combination supermarkets is still relatively low, most of the food store giants are developing prototype combos, some of which are too small to handle the enthusiastic responses they receive from consumers.

CATALOG SELLING

In 1984, some 6,500 different catalogs will be mailed, generating an expected $44 billion in sales volume. Annual growth of catalog dollar volume in the 1980's has been about 15%, significantly better than that for store outlets.

The trend in catalog selling is toward catalogs aimed at reaching an increasingly segmented marketplace. Armed with demographic data facilitated by in-house computers, or national consumer tracking services, mail order sellers can quickly determine what sells and where. They can discern what types of households will be most responsive to a given catalog, thus increasing productivity. And it is this combination of low overhead and high returns that has made catalog retailing the highly profitable venture that it is. There is no high rent to pay, start-up costs are low and profit margins, for many, are double what could be achieved through traditional retailing.

According to on-going studies by Milliken & Co., a major segment of the population targeted by mail order companies is the working woman. The female civilian labor force of 47.8 million is a diverse group, but one characteristic applicable to many of these women is the considerably less time that they now have for shopping. This group has also contributed to the number of newly affluent two-income households. These women, who tend to be educated, urban and married, have found that they can still comparison shop by comparing one catalog's merchandise with another.

Single men follow working women as the second largest category of shoppers. Divorced men are particularly attracted by the ease of catalog shopping. They, in turn, are followed by the wives of men with professional occupations. Many of these women may have the time to shop in stores but prefer to avoid the long lines and parking difficulties encountered.

EVOLUTION OF RETAILING ORGANIZATIONS

CATALOG SELLING

Catalogs are an efficient marketing tool employed by stores either to help or to take the place of national expansion. Bloomingdale's, for one, feels that its catalogs act as "an extension of the retail store but on a national scale." The catalogs help build a customer base in markets that may eventually support stores. They operate as a form of testing to determine the buying potential of various areas. And even if Bloomingdale's were to then refrain from building a new store in a given area, the catalogs will have done their job by perpetuating the chain's name and image. Its catalog sales figures show a phenomenal rise of nearly 200% from 1982 to 1983 ($11 million to $30 million).

Another catalog success story that symbolizes the changing nature of the industry is that of Spiegel. This catalog giant (projected 1984 sales: $640 million) began as a company that targeted low-income consumers, offering them credit that other firms would not. The rapid growth of upper-income households, coinciding with the rise of working women, prompted Spiegel to change its image to one representing fashion and style. Lines of such hard goods as automobile tires were discontinued in favor of designer apparel and quality home furnishings. Its institution of toll-free order numbers, UPS delivery, and more aesthetically pleasing catalogs have gone a long way to insure Spiegel a strong foothold in the marketplace.

In 1983, catalogs provided Sears with more than 20% of its general merchandise sales. The more than 40 catalogs that Sears distributes each year--and the telephone--still work so effectively together that the largest retailer has, thus far, limited its reliance on electronic shopping technology. More than 90% of the catalog merchandise ordered by telephone is picked up by consumers at Sears outlets. This increased store traffic is yet another benefit that catalogs can provide.

There are a few negative aspects of catalog sales that limit them from an even greater degree of consumer acceptance. One is the desire of many shoppers to compare merchandise in person, being able to actually see and touch the products, particularly apparel. While some will spend $75,000 for a fur coat from the Neiman-Marcus catalog, others prefer more evidence than just a picture. Another problem inherent with catalogs is that of returns. Unless the merchandise is picked up at the stores it will have to be rewrapped and mailed back.

CATALOG SHOWROOMS

The concept of catalog showrooms won immediate acceptance from consumers with their introduction in the late 1960's. Their then novel approach to retailing consisted of once- or twice-a-year catalogs listing thousands of mostly name-brand products and warehouse-type outlets. Consumers simply drove to the stores, filled out order forms and took possession of their merchandise. With overhead only half that of traditional department stores, the catalogers were able to undercut competing retailers. The mixture of high quality jewelry, cameras and appliances at low prices contributed to 30% annual gains in sales volume through much of the 1970's.

The recession of the late 1970's had a severe impact on the industry. While other retailers resorted to heavy price reductions to maintain their market share, the catalogers lacked this flexibility by printing prices in their catalogs months in

advance. High interest rates diminished earnings as catalogers, who traditionally register 50% of sales and 90% of profits in the fourth (Christmas) quarter, must borrow to finance inventory earlier in the year.

As a result, the industry's marginal outlets were closed and some operators were forced to declare bankruptcy. The survivors are dominated by five firms which account for 60% of sales: Best Products with $2.4 billion volume; Service Merchandise, $1.5 billion; H.J. Wilson, $530 million; Consumers Distributing, $400 million; and Ardan, $320 million. In 1982, Best acquired third-ranked Modern Merchandising and Basco. Service purchased bankrupt Sam Solomon.

A major trend in the 1980's is the upscaling of catalog showrooms. The outlets, which average 27,000 square feet, now devote more than 40% of their area for display purposes, a big difference from the days when merchandise was stored in factory-packed cartons in warehouses. The warehouses are still attached to the sales floor but the emphasis is on decor. The modern architecture of Wilson showrooms, for example, has been likened to that of Marshall Field and Filene's. Others have taken to marketing themselves to shopping malls as potential anchors, a challenge to a mass merchandiser such as Sears.

Catalog showrooms have also altered their merchandise selections to better reflect the realities of the marketplace. They are stocking more luxury items and trendier goods. There is a shift away from traditional hardgoods into domestics (sheets, towels, linens). Home computers and upgraded giftware are two particular areas of emphasis as the catalogers begin to make use of television advertising. They have become more aggressive in approaching suppliers about innovative, unproven items rather than just accepting lines that are proven winners as in the past.

The proliferation of jewelry and luxury items in catalog showrooms has prompted some operators to compare themselves to Fortunoff's upscale specialty store. This is a major repositioning of the showrooms away from their original concept of pipe-rack discounting. The warehouse clubs of today are considered the catalog showrooms of yesterday as the void left by the upscaling of the showrooms did not stay unfilled for long.

WAREHOUSE CLUBS

Warehouse clubs are cash-and-carry businesses that offer their members brand name merchandise at a markup of as little as 10%. They operate on the lowest gross margins in the retailing industry. Warehouse clubs account for less than $5 billion a year in sales according to David Yunich, the former vice chairman of R.H. Macy and now a consultant.

Most clubs have two types of membership. Retailers and other small businesses are called wholesale members. They are required to pay a $25 annual membership fee. Individuals, including government employees and members of credit unions, are called group members. They are not charged a fee but pay an additional 5% above the clubs' 10% markup. Retailers that don't have sufficient volume to be served by traditional wholesalers are particularly attracted to the outlets as are con-

sumers who enjoy the psychological impact of buying merchandise right alongside the wholesale members.

Whereas a department store might sell 10 or 12 items five times a year, the clubs turn one or two items 12 to 18 times a year. In other words, warehouse clubs may have only 3,500 stock-keeping units while a typical retail store may have 30,000. The clubs offer a wide range of products but little choice within each category. The key ingredient is the ability of the clubs to select the fast-selling items in the various categories. By keeping the merchandise limited, there is little margin for error. To maintain low operating costs, overhead and customer services are kept to a minimum.

Although warehouse clubs shift brand preferences frequently depending upon consumer demand, most keep the composition of the merchandise mix the same. At Price Club, for example, sundries constitute 28% of sales, followed by food with 22%, appliances and housewares, 20%, hard lines, 16%, soft goods, 7% and liquor, 7%. The relatively quick turnover of hard goods versus soft goods means that club business will continue to depend on nationally branded staples in housewares that require little consumer education, offered in self-selling packaging and bulk packs.

Warehouse clubs first hit the retailing landscape in 1976 when an entrepreneur named Sol Price opened his Price Club outlet in San Diego. In the intervening eight years more than a dozen units were opened throughout California and Arizona with the first East Coast store--in Richmond, Virginia--being added in 1984. Sales jumped 72.9% last year to $633 million, a 34% store-for-store increase.

Enticed by such phenomenal growth, some of the biggest names in the retailing industry are now getting into wholesale clubs: Wal-Mart, the $4 billion discount chain based in Bentonville, Arkansas, hopes to have 11 units known as Sam's Warehouse Club by the end of 1985, mostly in the South and Southwest; Zayre Corp., the Massachusetts-based discounter and off-price retailer is beginning its warehouse operation by investing up to $4 million in opening two New England outlets this year; and W.R. Grace, the New York-based conglomerate acquired a 50% interest in Chicago's Warehouse Club in 1983, the club founded by a former vice chairman of K mart.

The appeal of these clubs to their price-conscious member customers is cutting into sales of traditional retailers. However, since warehouse clubs carry merchandise sold by discounters, department stores, supermarkets, home improvement centers and drug stores, they are not a major threat to any one form of retailing. Discounters appear to be the most vulnerable since they fall well behind on price points for nationally branded items.

Born in recessionary times, the clubs must prove that they are a viable entity in a strong economy. They must also show that their appeal extends to major urban areas.

DEVELOPING MERCHANDISING TECHNIQUES

In U.S. retailing today, the name of the game is clearly NAMES--be they national brand, designer, celebrity or private label--merchandised within a framework of a distinctive store-name identity--and ideally building a solid loyal customer base. But the moves and rules in this game are constantly changing and evolving, and no name is safe from competing forces in the marketplace for very long.

In the face of less-than-robust consumer demand in many areas, retailers are encountering growing competition from a proliferation of products which are very similar, targeted to the same customers, and sold by an ever-expanding store population--growing to the point of over-storing in many trading areas.

Fast-changing fads and fashions, and the ever-present specter of price cutting, have made retailing an increasingly complex business in recent years, and many new merchandising techniques are being developed and refined. As never before, retailers have to be flexible and fast in changing their emphasis from one "Name" product to another and in changing their promotional strategies to hang on to market share or, if necessary, to build a new niche. To an increasing extent, small independents on their own do not have the resources to stay in the game.

FRANCHISING

The simplist move for a smaller retailer in the name game is to become a franchisee--obtaining from a franchisor (manufacturer or other vendor) the right to sell a product or service which has been tested in the marketplace and has already established a high degree of consumer acceptance, without a large capital outlay on the part of the retailer.

In return for payment of a lump sum (which can vary from $1,000 to over $1 million, depending on the product, location, consumer acceptance, etc.) plus continuing royalty payments based on a percentage of monthly sales, the franchisor provides its name for a product, guidance on marketing and management, sets standards and may conduct national advertising. With this backing, small store franchisees can offer special services that department stores do not provide and in some lines--athletic footwear, convenience foods, bath shops--small operations have mushroomed into sizeable retail chains. The concept has spread in every area where an opportunity seems to exist to fill a void in the market, created as larger retailers cut back on services or drop lines which require special handling.

Sales of goods and services by all franchising companies should approach $457 billion by the end of 1984, according to the U.S. Department of Commerce. Retail sales of all firms associated with the franchise system should reach $401 billion. The failure rate is low, according to the Commerce Department. Only 4% of all franchises were discontinued in 1983. By the end of 1984, the number of establishments associated with the franchise business is expected to total 462,000 and to employ some 5.2 million workers.

The franchisee, while essentially an independent retailer, must agree to follow guidelines and restrictions established by the franchisor. These are sometimes found too constricting and holders of franchises are in those cases forming associations to strengthen their negotiating stance with franchisors.

DEVELOPING MERCHANDISING TECHNIQUES

FRANCHISING

Since 1978 the Federal Trade Commission has required franchisors to disclose information on their operations to prospective franchisors. Registration laws are in effect in 15 states (although they are not uniform). Some require a franchisor to report audited sales figures; rules on contract revocations differ.

A problem arises in franchising when retailers are undercapitalized at the inception of the business. An immediate boom in business may be expected, but this is not often the case. If the retailer cannot hang in until the tide turns, a franchisor buy-back results, with the franchisor stepping in to take over the establishment in order to protect the name. However, the failure rate is low, as previously noted.

NATIONAL BRANDS

Nationally branded products, which offered retailers the security of heavily advertised, established names, carrying a connotation of quality and reliablity, were firmly entrenched as the key element in retailers' merchandising strategies until recent years. However, as the number of brands exploded, and the number of different outlets, all striving to sell to the same type of customer, multiplied, things changed. Established retailers saw their exclusivity within a trading area dwindle away with the mushrooming of established brand name goods into mass merchandisers, discounters and even factory outlets of producers.

About 1980, retailers began to take strong counter-measures. Specialty stores dropped brand lines in many cases, disrupting vendor relationships that had been in existence for many years. The downturn in the economy spurred the move, as retail demand softened and high inventories prompted more manufacturers to sell to discounters, or distribute through factory outlets, in greater quantities.

In some cases, manufacturers claimed that they were not selling directly to discounters but that the goods were getting into chains, etc., through the intermediary efforts of diverters; in other instances, manufacturers claimed the goods were counterfeit. The way was opened for another major move in the name game--the switch in emphasis to designer or personality names available through licensing programs.

National brand producers, for their part, have stepped up efforts to benefit from positive consumer feelings about their names developed over the years through brand extensions. Well-known names are being used on lines different from the original product identified with the name--i.e., Mr. Coffee coffee, Dial deodorant. Not all of these moves have met with success, however, as evidenced by Bic pantyhose and Life Savers gum.

DEVELOPING MERCHANDISING TECHNIQUES

LICENSED PRODUCTS

A key move in the name game by retailers of all types is taking on a licensed product or line. In this operation, the owner of a property (the licensor) has allowed a manufacturer or other vendor (a licensee) to manufacture and market his property described by a distinctive name--covering a character, personality, a movie, a designer or whatever the property might be, in return for payment of a royalty, usually based on a percentage of sales. The licensee sells to retailers, or the licensee may be a retailer.

Licensing has been the fastest growing area in the distribution system in recent years. While the rate of growth is slowing in some categories, such as designer licensing, it is still of growing importance in many types of merchandise, particularly children's items, sporting goods and apparel. According to Arnold Bolka, publisher of Licensing Letter, between 1978 and 1983 sales of licensed products grew by over 300%, to the point where in 1983 one out of every eight general merchandise sales dollars involved a licensed product.

Sales of licensed products of all types are projected at about $35 billion in 1984, up from $26.7 billion in 1983, and could reach $75 billion by the end of the decade. From the Spring/Summer 1977 to Spring/Summer 1983, the number of licensed products in the Sears, Penney and Ward catalogs increased by 174%. The licensed property of these retailers listed in the catalogs--i.e., products in which Sears, Penney and Ward are themselves licensees--about tripled, from 118 properties in the 1977 catalogs to 350 in 1983.

Sales of Licensed Products, 1982, 1983
(Billions of Dollars)

	1983	1982	% Change 1983/1982
Licensed goods, total	$26.7	$20.6	+ 29.6%
Apparel & accessories	10.1	7.8	+ 29.5
Toys & games	5.4	3.9	+ 38.4
Publishing & stationary products	4.0	2.9	+ 37.9
Gifts & novelties	3.5	2.1	+ 66.7
Home furnishings & housewares	2.1	1.9	+ 10.5
Sporting goods	0.8	1.0	- 20.0
All other categories	0.8	1.0	- 20.0

Source: Based on Arthur Bolka's Licensing Letter. (WWD 3/9/84)

A licensee can sub-license and also sell to anyone he wants to, which has led to problems for retailers in some areas. The licensor's control lies in offering merchandising and marketing expertise, and in having the option not to renew a contract if a licensee's distribution or operations are unsatisfactory. With the explosion of choices in licensed products, the problem for retailers is making the right choices. A well-timed, well-developed licensed product or line, such as N.F.L. Properties (National Football League) and Cabbage Patch, can produce windfalls, and many products, such as Annie or ET or the Jane Fonda line of bodywear, which seemed to be sure-winners, have required massive markdowns in order to be moved at retail.

DEVELOPING MERCHANDISING TECHNIQUES

LICENSED PRODUCTS

Counterfeiting is a major problem for the entire licensing trade, costing licensees alone over $1 billion a year, and retailers--no one knows how much they lose to sidewalk vendors of counterfeit (as well as genuine) name goods. "Knock-offs" are another threat--goods which may differ in some slight way from the original licensed goods in contrast with the exact-copy counterfeit.

Merchandising

A major consideration in taking on licensed merchandise is pricing, in terms of position within the merchandise mix in the store, profitability and competitive forces. A licensed product can cost from 5% to 20% more at wholesale than a comparable non-licensed item. Licensed goods must be priced to appeal to the more affluent customer, but markups still average lower than on similar merchandise that is not licensed.

In many licensed product categories, merchandising decisions are in a state of transition. Merchandisers must decide whether a licensed product or line should be integrated into traditional product displays or handled in specialized boutiques. Some specialty retailers, such as Child World, currently employ both techniques.

The workings of a licensing arrangement at the retail level are perhaps clearest in the operation of a leased department--an entire department operated for the store by a licensee, giving the store the advantage of merchandising experience and know-how which may otherwise be lacking. However, as we will discuss further, considerations of exclusivity and profitability are prompting many large retailers to get control of their operations to a greater degree, eliminating leased departments (or licensed products in other departments) in favor of their own private labels or strong national brands. For example, Macy's New York division has taken over the operation of its footwear departments from Wohl Shoe Co., and this procedure will be followed in the California division by August 1985.

The realities of present-day competition, and the growing sophistication and experience of larger retailers, indicate that more will opt to run their own departments, particularly in fashion merchandise. Licensing agents are reported to view their biggest growth opportunity among chain specialty stores and mass merchandisers.

Children's Products

Disney characters on children's wear were the first large-scale use of licensing in apparel. Juvenile character licensing still dominates the licensing trade, and can mushroom very quickly into a wide variety of products (as well as services)--as epitomized by the Cabbage Patch doll lines. Up until recently the attitude was that "you can put a name on anything and it will sell." Children's item retailers now find, however, that consumers' attitudes have changed greatly since the 1982-83 recession. They are more concerned with quality, value and safety in every area than ever before and these considerations are ahead of price in importance.

LICENSED PRODUCTS

Children's Products (continued)

Where they can in dealing with a market dominated by fast-changing fads and fancies, retailers are sticking with proven sellers, or cutting back in some areas and dropping others completely, especially products which appear on the shelves of discounters and off-price operations or other competitors. Most of the larger licenses are very profitable and popularity holds up, but most smaller ones fade from the scene rapidly and often a retailer is caught with merchandise virtually unsaleable at any price.

Designer/Personality Names

It is generally agreed that Calvin Klein and Gloria Vanderbilt launched designer-name licensing on a large scale with jeans about seven years ago. With massive TV promotions, consumer attention was galvanized and a thirst for status labels was created. Brand name manufacturers found themselves under seige in the market through the emergence of a host of new, lower-priced designer and personality-name licensed lines. Designers were no longer confined to couture, but challenging brand supremacy in the moderate to better-price apparel lines, as well as lending their names to a great variety of other products from sports equipment to home-furnishings.

As the economy improved late in 1982, the list of fashion entrants mushroomed. Designers in effect became brands, abetted by a seemingly insatiable demand on the part of a growing number of affluent consumers, particularly working women. The price differential between designer and brand names narrowed, and with tougher business conditions retailers were attracted to designer or personality names which were getting great exposure.

But the proliferation of designer names and the vast quantity of available merchandise has inevitably led to problems. Licensors, licensees and retailers are all feeling the need for controls--each from their own point of view, of course.

The whole system of designer or personality-name licensing is currently in a state of rapid evolution. The sudden, sharp decline of the designer jeans market has made the whole trade wary. Licensors, including those representing the major apparel designers, are seeking greater control of product, styles and distribution. Many are whittling down the number of designer names and changing marketing approaches to reach, through retailers, a broader span of customers.

To an increasing extent, "bridge" lines of designer apparel--lines priced to attract the fashion-minded customer at moderate-price points--are being developed. For example, Cluett Peabody & Co. has recently licensed the Dedham Group, a dress manufacturer, to produce and market a line of designer Ron Chereskin dresses and separates. This will be a new division of Dedham, designed to shift from the higher-priced niche (represented by Dedham's sportswear collection for Cluett) to a broader customer base.

Designer/Personality Names (continued)

For their part, many designers who are now thoroughly experienced in the marketplace, are challenging established resources, licensors and licensees, and taking steps to get control of the distribution and merchandising of their name lines. In many cases, three- to five-year agreements have now matured and designers are seeking new mentors or greater control, or even breaking away entirely from their licensor arrangements to make deals directly with licensees in an effort to both preserve identity in a highly competitive market and to increase volume.

In a major move in the homefurnishings area this summer, Ralph Lauren assumed control over the business operation (in addition to design control) of the Ralph Lauren Homefurnishings Division of J.P. Stevens and now has a separate sales staff. This is designed to improve the merchandising of this designer line in department stores and winning better exposure by expanding into merchandise classifications within the stores as well as keeping the narrower exposure available in the lifestyle approach as defined in Lauren Home Shops. This parallels the treatment of some designer apparel lines, such as Ralph Lauren's Polo.

The designer Halston is negotiating, according to latest reports, to regain ownership of his made-to-order and high-priced women's ready-to-wear from Beatrice Co., while their subsidiary, International Playtex, will continue to control Halston Enterprises, Halston III (the exclusive line sold by Penney) and probably future Halston licensing deals involving price points below those handled directly by Halston.

In a different move along the path to greater control, designers are opening their own retail outlets to a greater extent. These include such established names as Diane Von Furstenberg, Valentino, Ralph Lauren.

Retailers are taking their own steps to obtain control of distribution of designer or celebrity-name merchandise and keep it from showing up on competitors' shelves, as well as to obtain fashion exclusivity, and higher maintained margins. Quality control, too, has become more important to merchandisers as customers tend now to put quality ahead of price in their buying considerations. Retailers are developing more stringent criteria for the inclusion of designer and celebrity products in their stores. Large retailers to a growing degree are also becoming licensees themselves, dealing directly with designers on an exclusive basis.

The availability of designer or celebrity names through licensing enabled mass merchandisers to quickly upgrade their whole image--and to change their whole approach to selling. Now other major retailers are realizing the potential in direct deals with designers to find the recognition, exclusivity and margin protection they need and are expanding existing programs or developing new ones.

Perhaps the first successful large-scale program of this type was Sears, Roebuck with its Cheryl Tiegs line of women's wear. Other sports celebrity names acquired by Sears include Arnie Palmer and Evonne Goolagong. Sears has added the Boston Athletic Club by Gil Truedsson (men's tailored clothing, sportswear, shoes)--their first link with a major designer.

LICENSED PRODUCTS

Designer/Personality Names (continued)

J.C. Penney launched its exclusive designer line, Halston III, in women's apparel and accessories, and has now expanded it into Halston men's wear and homefurnishings. More expansion into other categories is to follow. Going further in the quest for exclusivity and prestige, Penney has stepped up promotions of tailored men's wear made in Italy under the Conte di Roma label, which Penney owns. Penney also controls Lee Wright men's wear.

Other retailers are jumping on the bandwagon. Associated Dry Goods Corp.'s marketing division has a tie-in with the Italian designer Edward Caracci for men's and women's knit tops, with plans to expand to other lines. The buying office, Frederick Atkins, controls the Christian Aujard labels in women's and children's wear, cosmetics and shoes. Federated continues to expand the size and scope of the Allen Solly label (men's furnishings, clothing and footwear) in their stores.

The inherent downside risk for stores in developing their own designer names is said to be in the fact that in most cases they must become responsible for production of the lines, usually through contractors, sometimes in conjunction with licensors. Long lead times and management of large amounts of inventory are necessary. Other risks are that retailers and designers may differ over fashion direction, or customers may not like the designs, which could cause heavy markdowns on large inventories.

While many retail companies are obviously pleased with their current arrangements with designers and are expanding the size and scope of their exclusive designer lines, there have been failures. R.H. Macy & Co. and designer Randy Allen, for instance, severed their relationship not long after products designed exclusively for Macy for Spring 1983 were introduced. The Gap, a San Francisco-based specialty chain, had problems with overseas production of a jeans line some years ago, causing it to give up the license.

The continued need for means to attract quality/fashion-minded customers who are also very price conscious has lead some large merchandisers to take other measures, such as acquiring or setting up separate operations which are very different from their usual retailing methods.

For example, in 1983 Associated Dry Goods acquired Loehmann's, a leading off-price retailer of designer and upscale women's apparel which now has 67 stores and a volume in excess of $300 million. The key to success in this operation is that Loehmann's is able to buy at lower than normal prices by purchasing manufacturers' overruns (in contrast with the operations of discounters who may use less direct routes to obtain designer merchandise). Because of large purchasing power and ability to pay cash on short notice, Loehmann's is able to stock stores with hot items very quickly. Merchandise is picked up from the manufacturer, centrally inspected, priced and ticketed with the designer labels removed, then shipped out to stores--generally all within 48 hours.

LICENSED PRODUCTS

Designer/Personality Names (continued)

Expenses are low as virtually no services are offered to customers--no credit, delivery or returns; no advertising is done on specific merchandise.

Federated's Filene's Basement Stores are another example of efforts of a traditional retailer to compete with off-price retailers and discounters in the designer merchandise arena. This operation was broken out as a separate division within Federated a year ago, and there are now 14 units with a volume of over $150 million, with more to come.

In a different mood, upscale retailers are taking sharp markdowns on designer label goods, while stepping up emphasis on their own private labels.

PRIVATE LABEL PROGRAMS

While still putting emphasis on stronger national brands, and adding exclusive designer lines, the major swing among large general merchandisers is to step up their private label programs in all types of goods, thus filling any gaps in the merchandising mix in terms of price lines and fashion-appeal.

Penney is an example of a large merchandiser's success in working out exclusive programs--using both an established designer name for the Halston III lines and developing resources for merchandise to be sold under Penney's own private labels, as noted in the section on designer-name lines. Ship n' Shore will produce a private label line for Penney aimed at the contemporary career woman and priced between the Halston III collection and Penney's more moderate price lines.

At Penney, the merchandise mix in many of the larger units is reported to be about 85% in private label, 15% in national brands. Their success has probably encouraged department store organizations to go further in developing and promoting their own private labels. They are seen as offering perceived value to the customer, giving quality at a fair price, and they give stores an exclusive name that can be promoted. The store itself, however, must have credibility for such a program to be effective.

Branded resources are hurrying to meet the new conditions fostered by retail skittishness about designer labels and national brands that are too widely distributed and discounted. They are expanding their private label offerings, dealing directly with the retail marketing divisions of the big retailers or reaching them through the stores' membership in a marketing company (buying office) which has product managers who deal with both domestic and foreign producers.

Specialty stores have in some instances formed regional organizations of independent retailers who can deal with manufacturers as a group to have goods made to their own specifications at prices below the manufacturers' regular line prices. This is enabling the smaller retailer to get higher markups while building consumer recognition of their own store labels and allows for promotions later in a season without devastating margins. Otherwise, the size of a minimum order required by a vendor of private label goods, be it a domestic manufacturer or

PRIVATE LABEL PROGRAMS

exporter, makes it impossible for smaller specialty stores or junior department stores to get into private label goods, and they tend to stay with national brands and designer labels in spite of the problems involved.

Off-price retailers, too, use private labels. Designer Depot, K mart's off-price apparel specialty store division, plans to add private label merchandise to its mix of branded goods by the end of this year. The new private label offerings will not bear a "Designer Depot" label, but may carry a licensed name. K mart has also recently established an off-price apparel division, the Garment Rack. These carry quality brand name goods but at a lower price level than the Designer Depot units. Other discounters and off-pricers whose business is based on brand names at discounted prices are, for now, eschewing private label goods entirely in favor of the established identifiable brand.

The private label business is big business. According to trade reports, Carter Hawley Hale's private label program is estimated at $500 million at retail in 1984. Frederick Atkins Inc., a New York-based retail marketing company owned by 35 retail chains and serving such retailers as B. Altman, John Wanamaker, Dillard's and Hess's, reports that in their stores private brands or labels accounted for 10% of total sales in 1983, and this share is expected to grow to over 20% in the next few years. In some merchandise classifications, the share is much higher, of course. In mature men's sportswear, for instance, many department and specialty stores do about 35% of their business in private labels.

However, as of late 1984, sluggishness in consumer demand is causing a buildup in inventories at the retail level and much of it appears to be in private label merchandise. Because retailers have in many cases committed for these goods with letters of credit, vendors claim that the stores are not able to spend dollars on branded lines. This in turn may force manufacturers to dispose of more merchandise through off-price retail channels--compounding the problems already existing for retailers in today's competitive market.

SOURCING

Decisions on sourcing by retailers are of prime importance in today's competitive markets, particularly where private labels are involved. Because imports offer product lines at less cost, due to lower production costs abroad and the strong U.S. dollar, and may offer the consumer better value than can be found domestically, many retailers are dealing now with foreign producers either directly or through their marketing organizations. According to a study by management consultant Emanuel Weintraub (Women's Wear Daily, Jan. 8, 1985) 22% of all retail soft goods inventories now are directly imported by the stores themselves.

Relationships between the U.S. textile industry and the apparel industry are being put under considerable stain as the apparel segment sets up production facilities abroad, or buys finished goods abroad, and retailers join the fray through direct imports as well as from these apparel manufacturers. Retailers have been very actively fighting against import quotas, but received a setback this year when the U.S. government laid down stricter rules on country of origin designations.

DEVELOPING MERCHANDISING TECHNIQUES

SOURCING

The availability of imported merchandise gives retailers great bargaining power with domestic producers who are now trying to keep their customers satisfied through the development of stronger brands or separate lines for private labels, etc.

PRICING

Dealing directly with U.S. producers for private label merchandise and sourcing abroad is helping retailers remain competitive. However, security from the inroads of price competition for off-price retailers or discounters is usually short-lived. The niche carved out in moderately priced private labels--women's sportswear is a prime example--is most vulnerable to competition from better or high-priced goods because it is in designer labels, national brands and top-line labels that price discounting is most prevalent.

This forces retailers to upgrade their private label offerings from moderate to better or higher-priced lines. Again, a void may be created in a market, to be quickly filled by a retailer who will start the chain reaction once again if present market conditions persist.

Retailers must also contend with present-day consumer psychology. Because of the increasing homogeneity of much merchandise and the highly promotional climate in retailing today, customers now generally perceive a regular price as not the real price. They have become accustomed to waiting for the inevitable markdowns. They are willing to wait, or shop around, preferring quality at a bargain to settling for less desirable merchandise.

When it comes to truly luxury goods, however, there is a different psychology. Most of these are imports, and the present strength of the U.S. dollar would indicate that price cuts could be made to attract more customers and still maintain a healthy margin. Not so, in most cases. Luxury goods have snob appeal, and are more attractive to well-heeled customers if they are expensive as well as perceived as offering quality and uniqueness.

But for retailers of more mundane goods, the customer is giving problems. Suppliers and retailers are working together on solutions--most of which seem to put burdens on suppliers, giving them less lead time as retailers accept goods closer to the time consumers are buying to fill current needs, and cutting back on time available to wait for bargains.

It is clearly the department stores from which off-pricers siphon off the most sales. Initially stung by the off-pricers' success, they are now incorporating some of their competition's tactics into their own strategies. No longer can the off-pricers rely on higher prices at department stores to establish the credibility of their own prices. Department stores are competing on all price points with extensive markdowns after obtaining favorable price concessions from their vendors. They are mixing branded merchandise with higher-priced private label goods to enhance the value of the branded goods. Many have repositioned themselves by lowering costs to attain profits at lower levels of sales volume.

DEVELOPING MERCHANDISING TECHNIQUES

STORE SERVICES

Despite the pressure on profitability, traditional retailers have had to step up some services to meet the competition from similar stores and from new types of outlets, while cutting back on other services, particularly sales help.

The extension of credit is one area of increased service. In addition to the larger stores' own charge plates, many retailers of all types now accept third party credit cards. Extension of credit has been further broadened by the growth of check acceptance companies which guarantee personal checks. Retailers who subscribe to such services pay a percent-of-check fee, in return for which the subscribing retailer can accept customers' checks with assurance of payment. The service has resulted in increased business for many retailers.

Store hours have been changed to meet the needs of customers, particularly because of the number of working women. Opening on Sundays is now a common practice, as well as opening later in the day and staying open later in the evening. Stores have stepped up promotions of telephone and mail order to meet the new needs of customers.

Within the stores, the biggest change since the mid-1970's has been the switch from full-service to a self-service, self-selection format.

SELF-SERVICE/SELF-SELECTION

Self-service is inherent in many types of retail trade today, and to a great extent defines these types--supermarkets, discount stores, off-price retailers, flea markets, etc. However, in response to increased pressure on profitability, other retailers which had traditionally offered sales help, fitting services, etc., have had to cut back on these customer services, and hope that convenience and competitive prices, plus the reliability of the store name and other selling features, would make up for the lack of service. People also have grown very accustomed to self-service, and in many instances prefer the speed it offers.

However, with the stronger economy and the growth of a more affluent group of customers who are generally upgrading their purchases and are more demanding, retailers who wish to please this clientele have to reassess their methods of doing business. Full-service stores aiming at this upscale market are also being opened, or special shops and boutiques within larger stores, staffed with special sales help, have been developed.

In other stores, personnel training programs to familiarize staff with merchandise and store operations are underway in an effort to develop a more confident, aggressive approach in dealing with customers and to convey a better store image. In a program begun in 1982 by The Bon, called "I Guarantee It", each purchase includes the salesperson's name and number. Should a problem arise the salesperson has the obligation to correct it. At Neiman-Marcus, salespeople are required to keep active files and personally contact customers about new merchandise.

DEVELOPING MERCHANDISING TECHNIQUES

SELF-SERVICE/SELF-SELECTION

J.C. Penney is now attempting a different approach to motivating its store personnel to improve their customer contact and service. Penney's introduced, in 1984, an incentive program which pays bonuses based on a percentage that individual departments exceed budgeted plans. Results are already being seen in improved spirit in departments and more cooperation between management and staff to solve customer difficulties more quickly, according to store sources.

While almost all retailers would like to capture the upscale customer, most retailers and analysts agree that the "hand-holding" days of the 1960's will never be seen in such a grand scale again. However with new methods of merchandise display, and improved incentives and training to store personnel, service is expected to show a marked change and improvement as long as the economy does not return to the pattern of slumps experienced in the recent past.

ELECTRONIC SHOPPING

The latest in the trend to low-cost, high return retailing is electronic retailing. It is currently estimated that more than 200,000 households have already purchased over 60,000 products through at-home computers, video-tex terminals and conventional TV sets.

The primary advantage to tele-shopping is its cost-effectiveness. By placing its merchandise in a sort of video catalog, retailers can economically and efficiently present their merchandise to a wider segment of the population than is possible with ordinary retail outlets. People who may for some reason not be able to reach an outlet would be able to have access to any stores' merchandise mix, on a 24-hour a day basis.

Another major advantage to videotex is the speed with which the presentation can be updated. Changes in videotex presentations can be made almost immediately for any reason. This allows retailers the ability to adjust the merchandise mix with considerations towards availability, mark-up, sales trends and other merchandising reasons with very little cost or difficulty.

Shopping at home will grow first through the medium of TV, then through computers. The ease and convenience of electronic shopping has led some industry insiders to estimate that by the year 2000, 20%-25% of all retail sales will be consumated by at-home computer networks.

The largest obstacle to the growth of electronic shopping is the lack of necessary hardware in the hands of consumers. In order to operate an interactive system, as would be utilized in an electronic shopping atmosphere, users need a personal computer as well as a compatable modem so that the consumer's computer can interact with the retailer's system. Currently a system necessary to interact with a retailer's videotex system can cost anywhere from $600-$1,200. With only 8.5% of U.S. households having computers in 1984, the market for electronic shopping at the present time is limited.

DEVELOPING MERCHANDISING TECHNIQUES

ELECTRONIC SHOPPING

Another major obstacle to the growth of electronic shopping is the reluctance of consumers to accept the new technology. Although most consumers are willing to accept that branded merchandise is of a certain quality, in many types of goods, particularly apparel, consumers want to see and touch the merchandise in order to decide for themselves which one is a better value for them.

Another problem with video selling is that consumers cannot get direct answers to questions they may have on particular items. If the information is not forthcoming in the presentation, the consumer must go somewhere else to receive it. This, it is believed, would be a deterrent to the use of computers as a primary method of shopping.

What retailers tend to fear most about electronic shopping is a complete change from the traditional method of retailing. Analysts tend to discount this fear noting that most consumers will stick to the way they are most comfortable with doing business. Industry insiders believe that it will not be until an entire generation has grown with video technology for the concept to show general acceptance.

VIDEO DISPLAYS (IN-STORE)

Currently the most common use being made of the video concept is the use of television monitors by retailers which give "demonstrations" that are available within their stores. This allows the customer to see the merchandise in use before purchasing and allows for the elimination of misconceptions and thus the lessening of returns. The increased profitability afforded by this method has excited many retailers, and the number of retailers using video displays in their stores is increasing daily.

In order to overcome the hardware problem, some retailers are combining with cable television operators in order to put their merchandise on television. Customers are then able to use the telephone to order through catalog-type operations.

RETAILING IN 2004

According to reports on a retail forum, entitled "Trends in the Year 2004" (Women's Wear Daily, Dec. 4, 1984), the keynote speaker, Stephen L. Pistner, president and chief executive officer of Montgomery Ward & Co., pointed out changes to be expected in retailers' relationships with vendors. Mass merchandisers and chains, in particular, he contended, will use their purchasing power to persuade vendors to make substantial contributions in terms of case pack and price-marking of merchandise. As retailers become less able to afford to carry excessive inventories or provide needless warehouse space, resources will be under more pressure to deliver close to the actual selling period. In return, the retailer will transfer payments through electronic funds transfer--an immediate transfer.

DEVELOPING MERCHANDISING TECHNIQUES

RETAILING IN 2004

An increasing volume of imported merchandise of high quality and value may be expected, according to this spokesman: "By 2004, retailing will be completely multinational in nature."

As for store space, emphasis in the next two decades will focus on redesigning existing buildings rather than constructing new ones. The high cost of land and of new store construction and the need for more productive use of selling space are the governing factors. Regional malls will continue to be preferred locations; department stores will survive through both a fashion-service-ambiance-value environment and one of promotional pricing.

FAIRCHILD FACT FILES CURRENTLY AVAILABLE

COATS, SUITS, RAINWEAR, AND FURS (WOMEN'S, MISSES' AND JUNIORS'): Details number of manufacturers by employment size, cuttings, and value of shipments. Also covered at the industry level are price trends and imports/exports. At the retailer level, data is presented on estimates of retail volume, merchandising and operating results, and seasonal patterns in advertising. Also focuses on consumer buying habits and plans.

CONSUMER MARKET DEVELOPMENTS: Provides a detailed view of consumers in the U.S., including population by age, personal income, the labor force, employment and earnings, households and living arrangements. Also covers trends in consumer prices, in personal consumption expenditures by product classification and in retail sales by store types, and the outlook for consumer markets based on current economic trends. (1983 Edition available now -- 1984 Edition will be available in March, 1985)

DEPARTMENT STORE SALES: Covers sales of department stores, and the number of stores operated, listed by geographic region and state based on buying headquarter location. Also lists branch store sales, where available. Sale information on major general merchandise/apparel retail chains, which are listed alphabetically, and a list of department stores with sales of $50 million or more, are included. (1983 Edition available now -- 1984 Edition will be available in February, 1985)

DRESSES (WOMEN'S, MISSES' AND JUNIORS'): Statistics on the dress industry, including trends in the number of manufacturers, and in production and shipments. Also data on fabric types and manufacturers' price lines and shipments by region of the country. Includes estimates on retail sales and data on the consumer market in terms of important demographic data.

FASHION ACCESSORIES (MEN'S AND WOMEN'S): Information on a wide range of fashion accessories for men and women, including jewelry, watches, gloves, belts, handbags, small leather goods, luggage, neckwear, hats. Includes key information at manufacturer level, as well as available retailer and consumer data. Also covers important fashion developments.

FOOTWEAR (MEN'S, WOMEN'S AND CHILDREN'S): A statistical summary of the U.S. footwear industry and the footwear markets. Covers domestic production and shipments, as well as imports. Provides retail sales and merchandising statistics and buying habits.

HOME TEXTILES: Information on the industry includes the latest data on number of manufacturers, production and shipments for a wide range of products, including bed linens, towels, blankets and comforters, slip covers, pillows, curtains and draperies. Trends in merchandising, departmental operations and consumer patterns are also covered.

HOSIERY/LEGWEAR (MEN'S, WOMEN'S AND CHILDREN'S): A comprehensive report on these industries at the mill, retailer and consumer levels. Included are details on production and shipments, retail sales by type of outlet and on patterns in consumer spending in terms of major demographic characteristics.

HOUSEHOLD FURNITURE AND BEDDING: Contains U.S. industry-wide data on quantity and value of manufacturers' shipments of furniture and bedding (mattresses and dual-purpose sleep furniture). Also covers information on the geographic location and size of manufacturers. Retail information includes sales by store type, trends in furniture styles and materials and market demographics. Features results of a consumer survey on furniture and bedding buying habits.

INFANTS', TODDLERS', GIRLS' AND BOYS' WEAR: Manufacturer data spotlights production, value of shipments, number of manufacturers, employment in the industry by company size, price trends. At the retailer level, data focuses on sales share by type of outlet and on operating ratios in department and specialty stores. Also covers data on purchases of children's wear by price line and season.

INNER FASHIONS: NIGHTWEAR, DAYWEAR AND LOUNGEWEAR (WOMEN'S, MISSES' & JUNIORS'): Data on production and shipments, tracing market shifts in response to fashion changes. Imports are covered, retail trends and merchandising ratios, and data on consumer purchases by price point, store type and month.

MAJOR APPLIANCES AND ELECTRIC HOUSEWARES: Covers a wide range of products in the major appliance and traffic appliance classifications, including heating, laundry and cooking appliances for household use, cleaning equipment, and personal care appliances. Details production and shipments, sales trends, retail merchandising results, more.

MEN'S FURNISHINGS AND WORK WEAR: Includes information on number of manufacturers, production and shipment figures on shirts, underwear, nightwear, neckwear, hats, etc., size of firms, imports and exports. Also provides data at the retail level, including sales and merchandising trends, operating ratios, and sales share by type of outlet.

MEN'S SPORTSWEAR, CASUAL WEAR AND JEANS: The wide variety of men's wear items included in this broad category are covered from available information on the industry at the manufacturer, retailer and consumer level. Included is information on production and shipments, imports, exports, market trends, retail sales and consumer buying practices. Trendy data, such as developments in Western wear, designer labels, fashion jeans and active wear, are included. (May)

MEN'S TAILORED CLOTHING/SEPARATES AND RAINWEAR: Manufacturer level profiled by production value of shipments, employment, size of firms. Imports from key foreign sources by unit and dollar value are covered. Data is also presented on retail sales, merchandising and consumer buying habits.

PERSONAL ELECTRONICS: A statistical summary of the market for electronic equipment designed for individuals. Product categories include televisions, radios, stereos, personal stereos, home computers, videosystems and videogames. Data is presented on both the manufacturer and the retailer level. Also includes a section on consumer buying habits. (Special Fact File for 1983)

THE SPORTS/FITNESS/LEISURE MARKETS: Covers developments in the fast-growing markets for sports facilities and equipment, for footwear and apparel designed not only for serious sports participants but those who like the "look" for leisure wear, and for products involved in life styles related to interest in sports and in physical fitness. (Special Fact File for 1984)

SPORTSWEAR, CASUAL WEAR, SEPARATES AND JEANS (WOMEN'S, MISSES' AND JUNIORS'): A statistical view of this segment of the women's wear industry is provided, including data on production and value of shipments, imports of major categories, sales by type of outlet, price points, seasonal patterns, and consumer buying habits. Also included is information on departmental merchandising and operating results, as well as important developments in retailing, such as the designer's label.

THE TEXTILE/APPAREL INDUSTRIES: Industry overview, providing statistics on fibers and fabrics as well as finished goods. Includes information on industry size, concentration of sales by mill/manufacturer size, production and shipments by U.S. mills, as well as exports and imports. Covers capital expenditures and data on mill machinery.

TOILETRIES, COSMETICS, FRAGRANCES AND BEAUTY AIDS: A detailed view of the U.S. industry covering products for both the female and male markets. Includes latest available industry-wide statistics and projections, as well as data on leading manufacturers in various product categories. Consumer expenditures, buying habits and usage of various product types are highlighted, as well as data on sales by outlet type and advertising expenditures by major producers.

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